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PROCEEDINGS RESUME ON 21 FEBRUARY 2020

CHAIRPERSON: Good morning Mr Mbikiwa, good morning everybody.

ADV MICHAEL MBIKIWA: Good morning Chair.

CHAIRPERSON: Are we ready?

ADV MICHAEL MBIKIWA: We are indeed Chair.

CHAIRPERSON: Thank you. Mr Sokombela you are still under the oath you took yesterday.

MR SOKOMBELA: Yes.

CHAIRPERSON: You understand that?

10 **MR SOKOMBELA:** Yes Chair.

CHAIRPERSON: Thank you. Let us proceed.

ADV MICHAEL MBIKIWA: Thank you Chair. Mr Sokombela we finished off your evidence yesterday with you taking us through the extensive preparatory work and work during the audit that the Auditor General's office and your team in particular did in the audit of the 2017 financial year. I would like now to turn to the kind of key areas of concern that you identified in the course of that – of that audit. We pick that up at your affidavit at page 34. To start with can you explain to us how the AG's overall audit opinion differed from that of the previous five years?

20 **MR SOKOMBELA:** Thank you Chair. The audit opinion of the Auditor General of South Africa in 2016/2017 regressed from an unqualified audit opinion with no findings from 2012/13/14/15 and 16 to a qualified audit opinion with findings on compliance with legislation as well as findings on performance information or predetermined objectives i.e. it digressed from being a clean audit to a qualified audit with – with

significant amount of findings Chair.

CHAIRPERSON: Did the role that the AG play – the auditing that it did for the 2016/2017 financial year because I think that is the year on which we are now – did it entail simply auditing that year – auditing SAA for that financial year or did the AG also look at the years when the auditing had been done by PWC and Nkonki and take a view whether they had done a proper job?

MR SOKOMBELA: Chair what the – what the standards or auditing standards require us to do when we take on a new engagement or a
10 new audit is to perform some work on the opening balances i.e the reason why for that is – is for us to determine in terms of whether we can rely on the – on the opening balances especially in the balance sheet of the business. Chair – Chair I – we did not go to an extent of – of opining on whether then the work of the predecessor auditors was – was appropriate. Because that would fall outside of our mandate. That is the mandate of the independent regulatory board for Auditors that would review work and come to a conclusion whether it was appropriate or not. However when we were doing our – our review of the opening balances what – what we normally do is – is then to request from the
20 management of SAA through the letter – we write to them formally for them – for SAA management to allow us to – to request access to their audit file and the working papers of the predecessor auditors. So that we can be able to – to go through their own working papers with an objective of seeking reliance on that work. So that is – that is the – that is the extent Chair that we go into and that is the extent that the

auditing standards allows us to do.

CHAIRPERSON: I understand you evidence to be that the auditing standards and the work that you have to do when you – you audit for one year does require you to have a limited look at the work done by your predecessors and I think you saying that you do that in order to see whether for purposes of your portion of the work you can rely on their work.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: Is that right?

10 **MR SOKOMBELA**: Absolutely Chair.

CHAIRPERSON: Yes. I take it that logically that means you may find or any auditor who comes in may find themselves in a situation where they say having had this limited look we do not think we can rely on our predecessors work. Is that something that does happen from time to time?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: It does, yes.

MR SOKOMBELA: It does happen.

20 **CHAIRPERSON**: Yes, yes. In this particular case did you find that you could rely on your predecessors work or what – what view did you take after having that limited look at what they had done?

MR SOKOMBELA: Chair I think as I said and I want to – to state also categorically that the work that we did with I think with us reviewing the opening balances was for our own purposes. It was not for the purpose of opining or not. However Chair to answer your question on the work

that we have done for – in the opening balances for the predecessor auditors there were some issues that we found. Specifically issues of lack of documentation where we could not determine in terms of how then certain account balances were tested. And that made us Chairperson to perform additional procedures at SAA and that became a very painful process also for the management team at SAA because I remember we had to ask them for an example to prove to us the validity of the aircrafts that were sitting in the balance sheet. Because when we looked at the audit files for the predecessor auditors we could not

10 find in terms of how those balances you know have been satisfied. Some of the aircrafts especially the airbuses were bought I think some time ago. I think as far back as 2002 if I am not mistaken. So there is a finding I think it is part of the annexures for the – in my affidavit where we had to unfortunately raise that finding because there were no documents. You know I think the International Standards – the International Financial Reporting Standards for an example requires that an aircraft should be – there should be [indistinct] of the aircraft. You cannot have an aircraft as a full aircraft in the balance sheet. You need to componentise it to ensure then that it meets the requirements

20 of the standards. So those were the – those were the limitations that – that we encountered when we looked at the file. And at SAA then because with some of the information we could not find we ended up saying perhaps if you cannot prove you do not have source documents maybe for – since 2002 maybe we can look at the you know – at their own ERP Solution they are using SAP to maybe to check purchase

orders because at least the record is there. And then we ended up saying perhaps let us give you then I think normally in South Africa it is about seven years at least maybe let us give you a leeway to say maybe give us then the most recent information that you have. At least for those assets maybe that were purchased at least seven years ago. You know – but because of other factors at SAA because when it comes to record keeping they – they have got very, very poor controls there so they could not prove those to us. So I think Chairperson that those – that is basically a snippet of the issues that we have identified.

- 10 **CHAIRPERSON:** No that is fine. I may have asked you that question ahead of Mr Mbikiwa reaching the point where he was going to deal with that. Mr Mbikiwa you can either continue around this area or deal with it at a later time that you had planned to deal with it. But I do want to have a very full picture of what they found was the position and whether what they found gave any indication about how well their predecessors had done the job. And we have got to look at that because he has already told us about some of the things that they found. Ja I mean the opinion that they – they gave and we know that the predecessors had given SAA a clean bill of health for five years.
- 20 So the question arises as to whether those opinions for those five years were really properly arrived at. Was a proper job done you know? And I accept that the witness is trying to be very cautious in not unduly criticising his colleagues in the profession. I understand that. But obviously he will appreciate that he has got to give us his evidence as frankly as possible and honestly. If he – if he has a view that they did

a fine job he must say so. If he has a view that they did not do a fine job that is what he – he needs to say if he is able to substantiate that.

ADV MICHAEL MBIKIWA: Indeed Chair.

CHAIRPERSON: Okay thank you.

ADV MICHAEL MBIKIWA: Chair I do intend to go to precisely there in due course.

CHAIRPERSON: Yes no that is fine. You can...

ADV MICHAEL MBIKIWA: I will take Mr Sokombela to...

CHAIRPERSON: Ja.

10 **ADV MICHAEL MBIKIWA:** The detailed Management Report.

CHAIRPERSON: That is fine.

ADV MICHAEL MBIKIWA: And its specific findings on the opening balance.

CHAIRPERSON: That is fine.

ADV MICHAEL MBIKIWA: For present purposes Mr Sokombela can I – can just clarify what you say about the opening balance? The reason that that in particular – you are able to copy to make a comment about the previous audit is that because it is the closing balance of the previous year's audit?

20 **MR SOKOMBELA:** Absolutely Chair.

ADV MICHAEL MBIKIWA: Okay.

CHAIRPERSON: And I think from what you have said I must accept that that gives you a rather limited picture of what may have happened. Maybe you might need to look at much more I do not know but you might be able to say, no from an auditors point of view if I have got that

then really I have got quite a reasonable picture of how the job was done.

MR SOKOMBELA: Chair I think it is worth noting that the audit work in the – in the audit file another experienced auditor needs to come and re-perform that work and he come to the conclusion.

CHAIRPERSON: Yes, yes.

MR SOKOMBELA: Yes.

CHAIRPERSON: If the job has been done properly is that what you are suggesting?

10 **MR SOKOMBELA**: Yes.

CHAIRPERSON: Okay.

MR SOKOMBELA: Yes Chair.

CHAIRPERSON: Okay. Once there is a difference of opinion it means that there is a problem?

MR SOKOMBELA: Once there is a difference of opinion because all of us we subscribe to the same ...

CHAIRPERSON: Standards.

MR SOKOMBELA: Auditing standards.

CHAIRPERSON: Ja.

20 **MR SOKOMBELA**: The methodologies may differ.

CHAIRPERSON: Ja.

MR SOKOMBELA: Here and there.

CHAIRPERSON: Hm.

MR SOKOMBELA: But those methodologies have been prepared in accordance with the auditing standards.

CHAIRPERSON: Hm. So one should worry if there is a different opinion later on?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Okay thank you.

ADV MICHAEL MBIKIWA: Mr Sokombela before we move on your audit opinion involved restatements as well did it not?

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: Can you tell us what a restatement is?

MR SOKOMBELA: Chair a restatement can – can be as a result of
10 maybe a change in accounting policy. When maybe the company
maybe has decided to change how it's going to account for its
transactions or account balances. A simple example of that is when a
company has been accounting for assets or let us say land and
buildings at cost but then it decides Chair to account for it at revalued
amount then – then what then happens is that in the year then that it
makes that decision then it needs then to apply that accounting policy
as if it has been an application for the previous years. I think the
standards are saying that you need to apply it retrospectively. So – so
that is one instance. Another instance Chairperson where then the
20 restatements are done is when then there were errors in the financial
statements for the prior years. So then there is an accounting
standards there – standard then that provide guidance in terms of how
then those errors needs to be corrected in the financial statements. So
then the restatements in the financial statements then Chairperson may
be as a result of those two – those two. Ja.

ADV MICHAEL MBIKIWA: And following on from the Chair's questions. Were the restatements in this instance able to shed any light on the audit work done previously?

MR SOKOMBELA: Chair the restatements that were – that were effected in the financial statements of South African Airways for 2017 – 2016/2017 financial year were as a result of correcting the errors for the prior year financial statements.

CHAIRPERSON: Okay thank you.

MR SOKOMBELA: Yes.

10 **ADV MICHAEL MBIKIWA:** Thank you. Mr Sokombela I would like you to take us through the key areas of concern that you identified during the course of the audit?

MR SOKOMBELA: Thank you very much Chair. Chair yesterday I think I mentioned that the audit of South African Airways was done by the Auditor General for the first time in 2016/17 financial year. And I think one of the things that I said is that in terms of law the Public Finance Management Act the Board of SAA was required to give us financial statements by 31 May that year. However due to liquidity challenges that they faced because they could not prove the going concern
20 assumption they ended up giving us the financial statements by 31 October that year. And we gave – we then signed an audit opinion on the 8 December 2017. So I have already talked about the regression that the audit – the audit opinion of SAA regressed. Chairperson I have summarised the key areas of concern in the audit of SAA in the Management Report in the Executive Summary which forms part of this

affidavit and it is on Annexure PS25. And ...

CHAIRPERSON: What page is that Mr Mbikiwa?

ADV MICHAEL MBIKIWA: Sorry Chair. I am going to go there in a moment.

MR SOKOMBELA: Ja.

ADV MICHAEL MBIKIWA: It is at page – it is in DD20B at page 572.

MR SOKOMBELA: Chair.

CHAIRPERSON: Let me get to it before you continue. Oh you – we – I do not need to look at it for now.

10 **MR SOKOMBELA**: Yes.

CHAIRPERSON: Okay alright continue with it – continue.

MR SOKOMBELA: Thank you Chair.

CHAIRPERSON: Hm.

MR SOKOMBELA: Chair I do want to state that this – the Management Report was communicated to the Board of Directors of SAA on the 1 December 2017 and – and the most important thing to highlight in terms of the key areas of concerns that we had is that at SAA – South African Airways faced – there was a lot of instability that was happening at SAA. In the Executive Committee of SAA more than 40% of the
20 positions were filled in an acting capacity. And Chairperson that created a lot of challenges especially to the control environment of the business itself in terms of how the business is supposed to be – to look like. When we – when – during that financial year the Board also was new. They were appointed six months before the end of the financial year. And also one of the challenges also with that Board is the fact

that they did not have an aviation specialist or someone that – that has got an experience in aviation. And also then that is one of the issues also that we have identified to say, SAA is an airline and if then they do not have an aviation specialist then it is – that might be – that might pose a challenge to SAA. And also ...

CHAIRPERSON: That is now at Board level?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Yes okay.

MR SOKOMBELA: At Board level.

10 **CHAIRPERSON**: Hm.

MR SOKOMBELA: At Board level. That was one of the challenges that we had. Maybe if I can go back to the Executive Committee just at the high level there. I think one of the key positions for an example that were vacant there was the position of a Chief Executive Officer which is a very important position. The position of a Chief Financial Officer was vacant. Also was filled in an acting capacity. The position of a Chief Commercial Officer was also – was also vacant. And the Chief Commercial Officer in an airline is a very, very important official because he is responsible for running basically the airline especially
20 the profitability of the routes among others. The Chief Strategy Officer also there was no Chief Strategy Officer at the time. The other position that in as much as it was not at the level of EXCO also that was – I think it was not vacant per se but I think the incumbent was on suspension was a position of a Chief Procurement Officer which also contributed then to the weak control environment especially in the area

of Supply Chain Management. Another challenge that or concern that we had at SAA was the matter of officials that lacked appropriate competencies especially in the areas of preparation of financial statements, understanding you know the international financial reporting standards, understanding the laws and regulations governing Supply Chain Management, Company's Act among others. And also officials that were responsible for the – the Annual Performance Report or the performance information as well they did not have an understanding of how to comply with the National Treasury framework

10 for program performance information which is a framework then that guides entities in terms of how they need to prepare and report on performance information. So that had a negative impact because we ended up having a lot of findings Chair in those areas. Chair the Compliance with Legislation at SAA was a serious challenge specifically on the – on the issues of irregular expenditure, fruitless and wasteful expenditure, the Company's Act and also one of the areas – issues that we have identified there is compliance – is Consequence Management. Because in as much as there was all – there were all of these transgressions that we could see on the ground but we could not

20 see consequence management that is being effected to those that transgressed the law. In the year under review that we did at the time 2017 in the Annual Report they disclosed irregular expenditure of approximately R125 million which was a significant increase from I think just over R5 million that they disclosed in 2016 financial year. However...

CHAIRPERSON: Was that something like 500% increase?

MR SOKOMBELA: I did not count Chair the percentage.

ADV MICHAEL MBIKIWA: But sorry that – that is reported by SAA itself?

MR SOKOMBELA: Absolutely. Absolutely Chair. However the R125 million also that was disclosed as irregular expenditure was not complete and we ended up qualifying the audit report of SAA because of those challenges. So I think it is very important to mention that Chairperson. Another concern that we have was the – was the legal
10 division as well as the office of the Company Secretary in terms of the capacitation of those offices. They were severely under capacitated. In the legal division Chair the – there was no capacity to ensure that all – for all the tenders that are awarded there is a contract that is being signed. South African Airways was operating on the letters of awards. For an example when the tender is finalised then there will be that letter then that is sent to the winning bidder.

CHAIRPERSON: You have been – you have won?

MR SOKOMBELA: You have won.

CHAIRPERSON: Hm.

20 **MR SOKOMBELA:** But subsequent...

CHAIRPERSON: There was no contract signed after that?

MR SOKOMBELA: Subsequent to that there was no contract signed.

CHAIRPERSON: And that is not how it is done.

MR SOKOMBELA: That is not how it is done Chairperson.

CHAIRPERSON: Hm.

MR SOKOMBELA: Yes. So that also in our view was a big risk for SAA because if you do not have contracts that are signed with your suppliers how are you going to control them? You know it – they may deliver goods to you or they may – that of poor quality or they may not even deliver them at all because you do not have a contract. But they were paid. You know and they were paid based on this letter of award. So for us that we said this is exposing SAA to significant – to significant risk to deliver.

CHAIRPERSON: Can I just ask before you proceed? Do not forget the
10 next point you wanted to make.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Were you able to get a picture of how long that had been going on – for how long that had been going on that they would just issue the letter of awarding the tender without having a contract concluded?

MR SOKOMBELA: Chair I think that has been going on for quite some time. Because...

CHAIRPERSON: And for quite some time would be for some years?

MR SOKOMBELA: For some years Chair. Even though we did not
20 count.

CHAIRPERSON: Yes.

MR SOKOMBELA: In terms of how many years.

CHAIRPERSON: Yes.

MR SOKOMBELA: Because of the magnitude.

CHAIRPERSON: yes.

MR SOKOMBELA: Of these challenges that they had there because SAA has got a very big contract register.

CHAIRPERSON: Yes.

MR SOKOMBELA: That they had and majority of those we could not find.

CHAIRPERSON: Yes.

MR SOKOMBELA: The signed contracts.

CHAIRPERSON: You must tell me if the picture I am having is not the picture that you got. You say you did not count how many years and I
10 think you said because of the magnitude and so on. Am I right to get the impression that you thought where do we start if we want to count?

MR SOKOMBELA: Chair – Chair you are right because the credibility of the – of the contract register itself.

CHAIRPERSON: Hm.

MR SOKOMBELA: Was questionable.

CHAIRPERSON: Yes. Yes.

MR SOKOMBELA: Yes.

CHAIRPERSON: Yes. Would I be right in – in thinking that if you
20 picked this up as a concern then your predecessors ought to have also picked it up if it had been going on for some years?

MR SOKOMBELA: Chair if they found it the state that it was.

CHAIRPERSON: Yes.

MR SOKOMBELA: Yes they ought to have picked it up.

CHAIRPERSON: Yes.

MR SOKOMBELA: However I was not there at the time.

CHAIRPERSON: Yes.

MR SOKOMBELA: So I do not know in terms of what...

CHAIRPERSON: Yes.

MR SOKOMBELA: The circumstances were.

CHAIRPERSON: Yes.

MR SOKOMBELA: However when we were there and we looked at the state of affairs.

CHAIRPERSON: Yes.

MR SOKOMBELA: It was quite dire.

10 **CHAIRPERSON:** Hm. Okay thank you. I interrupted you while you were continuing.

MR SOKOMBELA: That is okay Chair.

ADV MICHAEL MBIKIWA: Chair may I ask one follow up question?

CHAIRPERSON: Yes okay.

ADV MICHAEL MBIKIWA: Arising from that before you proceed. Can you give us an indication of what would have formed part of your audit year that would also form part of prior ones subject of course to sampling and the like? A contract entered into in 2012/2013 that was due to run until 2019 would that form part of your – of your audit year?

20 **MR SOKOMBELA:** Absolutely Chair.

ADV MICHAEL MBIKIWA: And as – sorry please continue.

MR SOKOMBELA: Ja Chair as long as that contract is still effective because the key issue is that that contract there will not be expenditure that will flow through the income statement or if maybe it is a contract to deliver assets there will be assets that will be need to be recognised

in the balance sheet. So we ought to ensure then that we test those regardless of when they were entered into.

CHAIRPERSON: Well let us go back to my earlier question about whether or not Pricewaterhouse/Nkonki should have picked up what you picked up about contracts. You - you said well it depends how the situation was when they arrived and you were not there. So you - you do not know, but if it was the same as what you found. They should have picked it up.

That is my understanding of your evidence and you have
10 made the point that SAA is big and they have got a lot of contracts - big contracts and so on. So my question is could any auditor audit SAA in the years that preceded your coming in. Let us say the past five years from 2011. Could any auditor who did a proper job not have looked at what contracts and tender SAA had awarded?

Could anybody doing auditing of any entity or an entity such as SAA not look at that?

MR SOKOMBELA: Chair - Chair, they will have to look at it.

CHAIRPERSON: They would have to look at it?

MR SOKOMBELA: Absolutely.

20 **CHAIRPERSON:** And if they looked at is there any reason why they would not have seen that the state of the contract register leaves much to be desired. Is there any basis you can think of why they would not have picked up that there were no contracts?

MR SOKOMBELA: I cannot think of any ...

CHAIRPERSON: Basis?

MR SOKOMBELA: Basis Chair.

CHAIRPERSON: Yes.

MR SOKOMBELA: However I must specify that I do not know what the approach was. You know. However it is important that the auditors looks at contract management.

CHAIRPERSON: Yes. Well that is - that is what I am ...

MR SOKOMBELA: Hm.

CHAIRPERSON: Trying to establish, because you see I am not an auditor.

10 **MR SOKOMBELA**: Hm.

CHAIRPERSON: I am not an auditor. You are an auditor. They - they are auditors. So I am trying to see what could be expected from an auditor who does his or her job reasonably well and so when you paint the picture that you paint to me about the state of affairs at SAA in 20 - during the 2016/2017 financial year. That there were many cases - as I understand it - where just a letter awarding the tender had been issued, but there were no contracts.

20 I want to have an understanding what are the chances that any auditor doing his or her job properly could miss that in the previous years. You as an auditor you might be able to say, no. It would be easy to miss it or you might say, I am surprised they missed it. If - if that is the case. You know. I would expect any auditor worth his salt doing his job or her job properly and reasonably to pick this up over the years especially if they have been auditing an entity for five years in succession.

MR SOKOMBELA: Hm.

CHAIRPERSON: How could they not pick it up at least on one of the five years?

MR SOKOMBELA: Hm.

CHAIRPERSON: Do you want to say anything about - about this?

MR SOKOMBELA: I think - I think Chair there are - their chances are they should have picked it up.

CHAIRPERSON: Yes.

MR SOKOMBELA: If ...

10 **CHAIRPERSON:** Yes.

MR SOKOMBELA: The situation was the same situation as we see.

CHAIRPERSON: Yes.

MR SOKOMBELA: You know in 2016/2017.

CHAIRPERSON: Yes.

MR SOKOMBELA: Yes.

CHAIRPERSON: Yes. Thank you.

MR SOKOMBELA: Thank you Chair.

ADV MICHAEL MBIKIWA: Thank you Chair. Please continue ...

MR SOKOMBELA: Thank you.

20 **ADV MICHAEL MBIKIWA:** Where you were.

CHAIRPERSON: Yes.

MR SOKOMBELA: Thank you Chair. Chair, I think one of the other things that I wanted to mention. I have - I have mentioned the under capacitation of the legal division as well as the Company Secretary's office. I think one - one of the concerns that we had there at SAA is

that the - the Company Secretary's office is very important especially in terms of them fulfilling their responsibilities in terms of the Companies Act and advising the Board of Directors.

There - there is - there is many transgressions that we saw at SAA out of the Board Resolutions that were made and we could not see where the Company Secretary has advised the Board. If I may make an example. For example there is an example where we found out that SAA has provided financial assistance to its subsidiaries. The Air Chfs, the South African Airways Technical.

10 There is another small subsidiary that they had that was called South African Airways Travel Centre. They - they provided financial assistance to that - to those subsidiaries contrary to the requirements of Section 45 of the Companies Act, because Section 45 of the Companies Act requires then a company to - to - to prove that after the - the financial assistance has been provided.

 The company will need the requirements of solvency and liquidating challenges. You know - as - you know. So I think that was - that was a challenged, because at - at that time that SAA was providing the financial assistance already SAA was in financial distress. Their -
20 their liabilities were exceeding their assets. Meaning that SAA was insolvent.

 They had liquidity challenges and then that then resulted in them - I think in the Companies and Intellectual Property Commission issuing a non-compliance notice to - to SAA. Specifically for the financial assistance that was provided to Air Chfs. I think that is -

that is the one. So that is one example Chairperson. Another example is - is - I think there was also a - a Board Resolution that was made for the set aside of - of the 30 percent I think for the - for the SMMEs which I think the DTI, the National Treasury have - have warned the Board that this is - the decision that the Board was making was unlawful.

However the Board continued to - to implement that decision and we could not see how the Company Secretary also could not advise the Board on that. So those were the examples Chairperson to name a
10 few that we had and that made us then as - as the audit team to - to be worried then in terms of then what is the value then that the Company Secretary's office is providing to SAA.

Chairperson, the - the issue of record keeping at SAA was - was a significant concern to us. We were - when we were requesting information for audit purposes. At times it will - sometimes it will take three months for us to get information and that was the dire situation that the - the state of affairs was and this has resulted in significant limitations - limitations of scope on our side.

You know due to that issue. Especially on the areas of
20 Supply Chain Management and also in assets - in the assets of - of SAA. When we were evaluating the status of internal controls - of key controls at SAA. They indicated that an intervention was required in the areas of leadership. In the areas of financial and performance management as well as governance and the contributing factors to that Chair included the - the lack of properly documented policies and

procedures at SAA, because what we see - what we found out is that SAA does not have - you know - adequate policies and procedures.

There is not even a central repository where you can go and say when I am looking for a policy for something I can go and find it as an employee of SAA. Some of the policies were outdated. They were outdated. You know. They have been - the last time that they were - that they were updated maybe were about five years ago/10 years ago and that resulted in a lot of - lot of challenges also on us.

Especially in the audit process, because what we realised
10 was that there is no one that was accountable for anything, because at least you need to go to the policy to see what are the roles and responsibilities of specific individuals or employees in the business. So those were then the - the challenges then that we had and management also were responding very slowly to our - to our audit findings in terms of addressing our audit findings.

I do not know how many engagements we had with SAA. You know. So that was - that was there. That was - that was a challenge Chair. Another area of concern. I think I have already highlighted. I am just going to be quick on this one. Is ...

20 **CHAIRPERSON**: Before you go to that one. Let us go back to the one about record keeping.

MR SOKOMBELA: Yes Chair.

CHAIRPERSON: I - I would have thought for an auditor to do his or her job properly in auditing an entity. Proper record keeping on the part of the entity is crucial. That is one, because without proper record

keeping it ought to be quite difficult for an auditor to do his or her job properly. That is one.

Two, you say that as part of talking about the record keeping, but maybe it goes beyond that. You say it was difficult to find policies at SAA. Obviously when you are an auditor and you are auditing an entity certainly such as an SOE. You - you are bound to have to find out have you got a policy on this. Have you got a policy on that?

Have you got a policy on that? If you have I want to see them. Now certainly when it comes to policies - if when you came in -
10 in 2016 - during 2016 for the 2016/2017 financial year there was that problem that SA - you were looking for certain - for policies and SAA could not give you some of the policies or maybe they could not give you any. I am not sure.

Obviously the ones who had audited in the year before must have looked for those as well. Maybe not exactly the same, but they must have looked for some policies and the question arises on what you saw during the - when you were doing auditing 2016/2017 - the 2016/2017 financial year.

Were you able to conclude that either your predecessors did
20 not ask for these policies, because if they had asked for them and had not been given them. That would have affected their opinion or what was your view of what is likely to have happened during the previous year. Is - is it possible that they - they could - I mean obviously if they asked they were not given, because they were not there.

Therefore should that not have affected their opinion? If they

were not given should they not have noted that somewhere as a concern? So I wonder whether you are able to comment on those aspects.

MR SOKOMBELA: Chair, I think - I just want to clarify that. There were some policies.

CHAIRPERSON: Hm.

MR SOKOMBELA: However what we have identified in those policies is that they were last updated years ago.

CHAIRPERSON: Hm.

10 **MR SOKOMBELA:** You know and you find that maybe, because the business as it goes things change in terms of how things are supposed to be done. You find that they are outdated or they are not - or they are no longer relevant and in some cases for an example you find that there are no policies at all. *Ja*.

I think Chair, I think in terms of the question that you are asking obviously in terms of getting policies and procedures is part of the audit process itself. However I do not know in terms of how they actually gathered that information, because it was not part of the scope of looking at the opening balances for the predecessor auditor.

20 So I - I do not have an opinion on that in terms of how they might have dealt with a similar situation.

CHAIRPERSON: But you are able to say auditing any particular financial year in regard to an entity like SAA would require an auditor to ask for various policies to see if they are in place and to see whether what they provide and whether that is fine?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Yes. Okay.

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: Mr Sokombela, before you continue. On the issue of record keeping. You mention in your affidavit a limitation of scope. Can you tell us what that is?

MR SOKOMBELA: Chair, a - a limitation of scope is when management did not provide us with documentation. Then we are limited. We cannot - we cannot - you cannot do anything. You know. We will then
10 just say you limited us. You know. So - and that is not a good thing for an auditor to get limited - limitation of scope, because our objective is to get documents. Scrutinise them so that you can have an opinion on them.

CHAIRPERSON: What - what is the explanation you got from management about their inability to give you documents? Was it that they do not know where the document were, but the documents did exist or was it the documents are not there?

MR SOKOMBELA: Chair - Chair ...

CHAIRPERSON: Or it varied?

20 **MR SOKOMBELA:** *Ja.* Chair, I think one of the challenges that we saw at SAA was there - there was no discipline of record management. For an example we having a Records Manager. You know. Somebody that will know then that he is going to regulate in the entity in terms of how documents needs to be recorded. How they need to be filed.

For how long they need to be retained. Among those things.

So it was - each and every business unit would do what they like. You know and at times for an example, because people come and go in an organisation. So you find out that maybe the current people that you are dealing with they do not know where those documents are.

CHAIRPERSON: Hm.

MR SOKOMBELA: You know. You may find that maybe they are available somewhere, but they do not know where they are.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela, please continue where you were in your description of the areas of concern.

- 10 **MR SOKOMBELA:** Thank you very much Chair. Chair, one - one of the areas of concern that we had was the quality of the - the annual performance report that SAA uses to report on its - on the achievement of the strategic objectives. We could not - it was very poor. We could not - we - we identified significant findings on the usefulness or measurability of their Key Performance Indicators and also we could not determine if they are reliable or not and this is very important for an entity like SAA that has got for example long term turnaround strategies, because you would want to see whether they are achieving their strategic objectives or not and I have already mentioned that this
- 20 was due to also the challenges like key officials that were responsible for this that lacked appropriate competencies.

There was no fulltime Head of Strategy at the business. *Ja.* Among others. One other concern that was quite significant to us was the - the ineffectiveness of Information Technology Environment and Infrastructure at SAA and we - we are saying that because SAA did not

have a coherent Information Technology Governance Framework that would allow for effective alignment of processes, projects and structures to support its business.

One of the things that we - that we saw there Chair is that the - the Information Technology Department is supposed to work as an enabler to - or to business - to enable business to operate properly, but what we saw is that there was no effective communication between the two. You know the IT Division will do its project thinking that business is going to - is going to - to adapt to them or utilise them.

10 One of the things for example that I saw - what we saw at SAA was the issue of records. SAA is using a lot of paper - papers, but they have got one of the best ERP Solutions by the name of SAP, but people were working outside with papers. You know, because I guess maybe there was no change management to say let us know that we have got SAP.

Let us ensure then that we do all the transactions on the system itself. So those were the challenges that we had and also the - the responsibility for the - the ICT Governance Framework was - was that of the Audit and Risk Committee and it was - it was mandated to
20 implement the - the ICT Governance Framework. One of the challenges that we was in the Audit and Risk Committee at SAA was that they did not have a technical representative that - that is - that understands IT.

You know. So that also makes then oversight in effective, because you - you ought to have somebody then that understands in terms of the IT issues. What are the - what are the issues there in the

- in the IT? The Risk Management processes at SAA they lacked maturity Chair and - and also the delegation of authority at SAA did not operate optimally.

Resulting in invalid decisions at times and also one of the things that we have seen is that it - it - the turnaround time for a decision to be made. It was long. It was long. I think it is because of how the business itself was convoluted. You know, because there is a lot people that needs to approve something. You know. So that took time. I remember one of the contracts for an example.

10 I think - I think the contracts were on the jet fuel. I think they were - the extension of contract was extend - was - was approved. The extension was approved. I think about three months after the date - the expiry date of the contract. So again that tells you then in terms of how long the decisions at SAA took. The - the inadequate segregation of duties also was identified especially in the areas of maintenance reserves and provision for lease liabilities.

What we have detected there is material differences between the annual financial statements and the calculations both for the maintenance reserves as well as - as a provision for lease liabilities
20 which also led to material misstatements and also changes made to the calculations that were made on the submitted financial statements. *Ja.*

So those were the - those were the key issues I think at a high level Chairperson that - that we have identified as the areas of concern.

CHAIRPERSON: You may or may not be able to tell me this. Looking

at where SAA was financially in the 2016/2017 financial year including issues of liquidity and insolvency and looking at the clean audits that your predecessors had given for the previous five or so years. Is this - is the financial state in which SAA was in the 2016/2017 financial year reconcilable with the clean audits that had been given for five successive years?

MR SOKOMBELA: Chair, I think when you are saying reconcilable with previous years. Maybe you may need to clarify that question.

CHAIRPERSON: Yes. Let me put it this way is it from an auditor's
10 point of view if you come to an entity in a particular financial year and find it to be in the position in which SAA - in which you found SAA to be in the 2016/2017 financial year. Are you able to say clean audits for the past five years for this entity are consistent with this financial situation in which I am finding it the year after the predecessors have gone or is the position that you say there is no way if SAA is this - is in this financial position this year that the clean audit of last year and the previous five years could be justified or are you only able to say look it is possible that all those years those clean audits fairly represented the position of SAA?

20 Something happened maybe during this financial year that just put it in the position that it is in. I do not know if that helps you in any way to understand what I am looking for.

MR SOKOMBELA: It - it does - it does Chair.

CHAIRPERSON: Yes.

MR SOKOMBELA: It does.

CHAIRPERSON: Hm.

MR SOKOMBELA: I think Chair what - what I said I think specifically yesterday. One of the things that I said was to say whether I am going to be able to provide an opinion ...

CHAIRPERSON: *Ja.*

MR SOKOMBELA: On - on whether then the - the clean audit opinion that was issued by PwC and Nkonki ...

CHAIRPERSON: Hm.

MR SOKOMBELA: Was a valid ...

10 **CHAIRPERSON:** Hm.

MR SOKOMBELA: Opinion ...

CHAIRPERSON: Hm.

MR SOKOMBELA: Because I think one important aspect is that these - these were credible firms and these firms the - the Independent Regulatory Board for Auditors did not find any challenges as far as the quality is concerned. That was through our concurrences when we were concurring that as the Auditor-General.

20 However we - we identified - we did identify errors in the previous years' financial statements that were corrected as part of the restatement of corresponding figures, but Chairperson what I do not know is whether then how did the previous - whether the previous auditors were able to identify those or not - those errors or not. So I think that is the - that is the challenge that we have and ...

CHAIRPERSON: That is the challenge?

MR SOKOMBELA: *Ja.* That is the challenge and what I - what I do not

want to do also is to - is to speculate.

CHAIRPERSON: *Ja.* No, no, no. I - I ...

MR SOKOMBELA: You know. Is to speculate, *ja.*

CHAIRPERSON: I accept - I accept.

MR SOKOMBELA: Hm.

CHAIRPERSON: You - you will see that with these questions I am trying to get ...

MR SOKOMBELA: Hm.

CHAIRPERSON: As close a picture of SAA not just in 2016 - in the
10 2016/2017 financial year, but in the years before. As close a picture as
you as an auditor ...

MR SOKOMBELA: Absolutely.

CHAIRPERSON: Were - were able to get.

MR SOKOMBELA: Indeed.

CHAIRPERSON: You see.

ADV MICHAEL MBIKIWA:

MR SOKOMBELA: Indeed.

CHAIRPERSON: So that - that is why I am trying to look - look at that,
because - and we - we all know that the situation - financial situation of
20 SAA has been very bad for quite some time. You know.

MR SOKOMBELA: Indeed.

CHAIRPERSON: So - so, but in order to be able to pass an opinion on
the issues I am raising.

MR SOKOMBELA: Hm.

CHAIRPERSON: What would an auditor need to do? Would they need

to do much more than the limited look that the standards - as you told me - allow you when you come into - to look at or - or what - what is it that would be needed for you or any auditor to tell me - to give me answers to these questions.

MR SOKOMBELA: Chair, I think also - I think it is important to note that as - as a professional accountant I have got ethical responsibilities. Especially passing judgment on - on something that I do not know what ...

CHAIRPERSON: Yes.

10 **MR SOKOMBELA**: The circumstances were.

CHAIRPERSON: Yes. Yes.

MR SOKOMBELA: However I think it is important maybe to mention to you Chair that if the situation as SAA before we took back the audit was the same as the situation that we found SAA to be at then it would have expected then that the previous auditors have identified those findings. Have reported those findings and maybe perhaps the audit opinion should not have been clean.

CHAIRPERSON: Yes. Yes.

MR SOKOMBELA: I think that is the closest answer I can give you.

20 **CHAIRPERSON**: That you can give, yes, yes. No, no that is fine, and what would the Commission need to do to establish whether the position that you found at SAA when you came in was the same or was different when they came in, what would we need to do if we want to do that, because we are committed to being fair to everybody.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: But we need to understand and to do a proper job.

MR SOKOMBELA: Thank you Chair. Chair the regulator for the auditors, which is the Independent Regulator Board for Auditors is the one that has got a mandate to review those funds, ja, those funds and they are the ones that can be able then to provide an opinion whether then those opinions were fair opinions or not.

CHAIRPERSON: Okay, okay, no thank you.

ADV MICHAEL MBIKIWA: Thank you Chair. Can I, following from that just ask one question of clarity, because I understand your
10 evidence from earlier to be that at least in two respects your audit opinion does make a judgment of the prior year's audit work. The first is in respect of the opening balance, the closing balance, which is carried over from the previous audit year to your own is that a correct assessment?

MR SOKOMBELA: No that is not a correct assessment. The correct assessment is that was ourselves we did not satisfy, we were not satisfied with the – with what we saw in the audit file of the previous auditors. However we did not pass judgment, instead what we did we performed additional procedures at SAA and in some cases we
20 identified significant findings that resulted in the prior figures being corrected.

So I think it is important to understand that to say the reason why – I think it was at the mercy of the previous auditors for them to allow us to go to their audit file, if they liked they might have said no we don't want to give you access, so – and we are very clear then to

say we just want to get this access so that we can see what is that we can rely, what is it that perhaps if we don't rely then we need to go back to SAA and perform additional procedures.

CHAIRPERSON: Yes.

ADV MICHAEL MBIKIWA: Sorry Mr Sokombela it may have been the fact that I used the work judgment which was the inappropriate one to use. What I mean to ask was that in your findings as to the opening balance you were yourself making a finding as to the closing balance of the prior year's auditors, based on the circumstances that prevailed at
10 the time for them?

MR SOKOMBELA: Chair I have made the findings on the closing balance based on the additional procedures and the evidence that I got at SAA, and the evidence that I got at SAA were at the time that the previous auditors were there.

ADV MICHAEL MBIKIWA: Yes.

MR SOKOMBELA: Because we had to go back memory lane and for them to give us evidence and some evidence they could prove certain things, but unfortunately in some instances there was non-compliance with the accounting standards.

20 **CHAIRPERSON:** Yes, yes, so in regard to that you knew what position they had found SAA and you knew it was the same as the position you found it and then you were able to say we need to correct something?

MR SOKOMBELA: Absolutely, absolutely.

CHAIRPERSON: Thank you.

ADV MICHAEL MBIKIWA: And the second respect was the

restatements that you spoke about earlier where you restated the financial statements from prior years, is that correct?

MR SOKOMBELA: The management had to restate the financial statements, otherwise the audit opinion could have been worse if they didn't restate those prior statements.

CHAIRPERSON: Well if when you came there was no restatement, restatement was done at your instance is that right?

MR SOKOMBELA: Chair I can't remember you know whether there were any restatement of corresponding figures in the 2016/17 financial,
10 there may be one or two restatement of corresponding figures.

CHAIRPERSON: Yes.

MR SOKOMBELA: *Ja*, so I can't necessarily remember if there weren't any, but what I want also to specify is that the restatement of prior years is an acceptable – is acceptable in the profession.

CHAIRPERSON: In terms of standards.

MR SOKOMBELA: In terms of standards, there is even accounting standards that says if you find that there are errors in the prior years this is how you need to deal with them, this is how you need to disclose them.

20 **CHAIRPERSON:** Yes, yes, yes.

MR SOKOMBELA: Yes Chair.

CHAIRPERSON: What made restatement to be necessary, was it not a situation that logically must have existed when your predecessors were doing their audit.

MR SOKOMBELA: What made the restatement Chair is that you know

because people that are preparing financial statements sometimes they make mistakes or they make errors in the sense, in that sense, so you may find that some of the – or maybe there may be different interpretations or they might have interpreted the standard wrong, you know.

Let me make an example of where for example the – we find that how they interpreted the standard was wrong was SAA had a subordinated loan with Nedbank of about R1.3billion, and that how then that subordinated loan was treated in the financial statements, it was
10 treated as an equity instrument, as opposed to be treated as a dead instrument, and when we as part of the opening balances when we we're reviewing the decision to classify this loan as equity and even the interest that was paid to Nedbank at the time was classified as dividends, as dividends as opposed to be classified as interest paid you know in the financial statements, we realised that that was not in accordance with the international financial reporting standards and management then had to reclassify that loan from being an equity instrument to being a dead instrument.

CHAIRPERSON: Okay so hence your comment that your predecessors
20 may have been faced with the same situation but their interpretation of the standards may have been different from your own interpretation.

MR SOKOMBELA: In that specific scenario.

CHAIRPERSON: In regard to that specific scenario.

MR SOKOMBELA: In that specific scenario that's what I determined, however in other scenarios I do not know what might have caused them

not to, but in that specific one because we looked at that one, there is a lot of consultations that we had to do.

CHAIRPERSON: Yes.

MR SOKOMBELA: On our side as well to arrive at a decision to say reclassify the R1.3billion not to be part of your equity, it is not your equity, it is a dead instrument, meaning that it should form part of the loans.

CHAIRPERSON: Yes, yes, yes, okay alright, but you say others you couldn't tell what led them to decision, conclusion they reached?

10 **MR SOKOMBELA:** Absolutely Chair.

CHAIRPERSON: Okay, thank you.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela I would now like to take you to the final management report that you referred to, you will find that in DD20B at page 572. Are you there?

MR SOKOMBELA: Yes Chair.

ADV MICHAEL MBIKIWA: Can you start by telling us what this document is and what its purpose is?

MR SOKOMBELA: Chair this is the final management report of South African Airways, ...[indistinct] for the 31st of March 2017 financial year
20 and the purpose is to communicate significant findings to management and those charged with governance so that they can be able then to address any deficiencies that are identified and also for the Audit Committee to be able to hand over to the internal audit to make a follow up on some of the findings that we addressed.

CHAIRPERSON: If you have been auditing an entity as an auditor

would you always have to have a management report that you put in or is the decision to do a management report dictated by the fact that you have made certain adverse findings or certain findings that you feel justify putting together a report that would be given to management?

MR SOKOMBELA: Chair the management report is a requirement to – that it needs to be provided to management and ...[intervenes]

CHAIRPERSON: Irrespective of what findings we have made?

MR SOKOMBELA: Irrespective of what findings they have made, I think other firms they call it a management letter.

10 **CHAIRPERSON:** Okay, okay.

MR SOKOMBELA: Yes.

CHAIRPERSON: Which therefore means that if we want to look at what your predecessors may have picked up or not picked up for the previous financial years we look at their management report to management.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Yes, okay.

ADV MICHAEL MBIKIWA: Thank you Chair. Mr Sokombela if you turn over to page 577, I am concerned that it looks like you are looking at a
20 different page to me.

MR SOKOMBELA: Your eyes are very sharp, I must say.

ADV MICHAEL MBIKIWA: 577 which says “overall message” at the top.

MR SOKOMBELA: I see that Chair.

ADV MICHAEL MBIKIWA: This is the kind of summary of the issues

that you have basically just talked us through, is that right?

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: I would like you to turn to page 618 of the Management Report please.

CHAIRPERSON: Well maybe let us for the sake of completeness let us place on record that the management report starts at page 575 and goes up to what page?

ADV MICHAEL MBIKIWA: Chair it is a little bit complicated, it goes up to 649, but that is ...[intervenes]

10 **CHAIRPERSON:** I just want whoever reads the transcript to know ...[intervenes]

ADV MICHAEL MBIKIWA: Indeed, so let me explain.

CHAIRPERSON: Ja.

ADV MICHAEL MBIKIWA: It goes up to 649, except for Annexures A to C.

CHAIRPERSON: Yes.

ADV MICHAEL MBIKIWA: Annexures A to C are the detailed audit findings.

CHAIRPERSON: Yes.

20 **ADV MICHAEL MBIKIWA:** In total it runs to 720 pages, those are contained in File DD20C.

CHAIRPERSON: Yes.

ADV MICHAEL MBIKIWA: From page 950.

CHAIRPERSON: Yes.

ADV MICHAEL MBIKIWA: All the way through to DD20D at page 1591.

CHAIRPERSON: Okay so the management report with its annexures starts at 575 and ...[intervenes]

ADV MICHAEL MBIKIWA: 572 Chair.

CHAIRPERSON: Of, 5 – 572 of DD20B up to what page of what lever arch file?

ADV MICHAEL MBIKIWA: Up to DD20D at page 1591.

CHAIRPERSON: Okay that's fine.

ADV MICHAEL MBIKIWA: Thank you. Chair I see we have reached 11:15.

10 **CHAIRPERSON:** Yes, let's take the short adjournment, we will resume at half past eleven.

We adjourn.

REGISTRAR: All rise.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: Okay, let us continue.

ADV MICHAEL MBIKIWA: Thank you Chair. Mr Sokombela we were in the final management report which was at page 572, in File DD(20)(b), can I ask you to turn to page 618 of that document?

20 **MR SOKOMBELA:** Yes Chair.

ADV MICHAEL MBIKIWA: At – at item 4.2.3 on that page it says procurement processes, and it says the table below is a summary of findings identified on procurement processes. Can you take us through what that table represents?

MR SOKOMBELA: Chair this table represent the summary of work that

we have done when we were auditing the audit of Supply-Chain-Management like the procurement process, the supply, the procurement processes. Chair I do not know if you want me to take you through the table itself.

ADV MICHAEL MBIKIWA: Please.

MR SOKOMBELA: Chair, if you look at the table there, it is basically has got three columns, basically. The column that has got contracts and the column that has got quotations, and then the column that has got a total. That column – that column that has got contracts, you will see that
10 there is a value and also there is a number, in actual fact in all columns there is a value and also there is a number. Chair, yesterday I think I explained the concept of sample, in terms of sample selection.

CHAIRPERSON: I am sorry, just to make sure I understand these columns, initially when you said there were three columns I wondered what you were talking about because there seems to be many, many columns but I think I do understand now. You have got contracts and then number and value on the right hand side and then on the left hand side you have got total, you have got number, you have got value.

MR SOKOMBELA: Yes Chair.

20 **CHAIRPERSON:** Do – do those two columns represent the same thing?

MR SOKOMBELA: Those – those two columns Chair, if you – if you look at just the columns up in the top there, you will see in the top that I have got total, there is total, then next to total it is very blur so, you may not see it, but what that word is, it is saying quotations.

CHAIRPERSON: Yes. I can see that.

MR SOKOMBELA: And then next to that is contracts so, what we did then, because this is the table that shows in terms of the selection that we have done, the selection that we have done when we were testing, when we wanted to test tenders as well as quotations at SAA.

CHAIRPERSON: I will tell, I will tell you what may be confusing me. I would have expected you to start with the contracts column and then no, number, maybe value number so, I almost asked you whether you are left handed so – so as you explain it maybe I will get to understand it more.

MR SOKOMBELA: Absolutely Chair. Before I explain it let me go back
10 to the concept of sample, the sample selection because what this demonstrate is us as Auditors as I explained yesterday that sometimes it is impractical for us to test everything, so then for us to gain evidence we – we do sample at times, so this table then shows the sample size, the sample sizes that we have selected for both tenders, for both the tenders as well as the quotations, and then the sample size in terms of the numbers as well as the value of those tenders, for an example, if you look on the left hand side of that table, besides that we did not label it, it supposed to be description.

CHAIRPERSON: And description would have been for that first column?

20 **MR SOKOMBELA:** For that first column Chair. Yes.

CHAIRPERSON: Oh Okay, and yes so maybe that is part of what is confusing me, okay, and – and total there is supposed to be total of what?

MR SOKOMBELA: The total there is supposed to be the total of quotations and contracts.

ADV MICHAEL MBIKIWA: So, quotations and contracts is a breakdown

of what is contained in the total columns.

MR SOKOMBELA: Absolutely. So – so –so if I am saying, for example if I make an example Chair, you say there, I said award selected for testing, the total is 140 and the value is 7.6 billion Rands.

CHAIRPERSON: Yes, Yes, Yes, Yes.

MR SOKOMBELA: But if you go to quotations the number is 44 and the value is 11.7 million, and if you go to contracts it is 96 and the number is 7.5 billion Rands.

CHAIRPERSON: Yes.

10 **MR SOKOMBELA**: So, the 140 is for 44 plus 96, then it will give you 140.

CHAIRPERSON: Oh, it goes back to what I was talking about, I would have expected the total to be [intervenes].

ADV MICHAEL MBIKIWA: On the furthest right-hand column.

CHAIRPERSON: That is right, maybe I should ask, are you left-handed?

MR SOKOMBELA: No I am not left handed, maybe my brain is left handed.

CHAIRPERSON: Okay so - so – so now the quotations, are those quotations that relate to the contracts dealt with in the extreme right
20 column or do the quotations relate to different transactions?

MR SOKOMBELA: Quotations Chair, what – what SAA has in its Supply-Chain-Management-Policy has got threshold where for example, goods and services that are below 500 000 they do not go to an open competitive tender.

CHAIRPERSON: Yes, yes.

MR SOKOMBELA: Then they will just make the request a minimum of three quotations. So, we test those as a separate population, yes.

CHAIRPERSON: Okay, okay, so in other words you have two columns here.

MR SOKOMBELA: Yes Chair.

CHAIRPERSON: The one column deals with contracts, the other one deals with situations where there were quotations but no contracts.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: Or not necessarily?

10 **MR SOKOMBELA**: Not necessarily, maybe - maybe that word contract should be written contracts less tender.

CHAIRPERSON: Oh, yes.

MR SOKOMBELA: Because those will be the big ticketing items.

CHAIRPERSON: So, the contracts one relates to those that were supposed to have gone out to open tender?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: And the quotations refers to those transactions which were below 500, is it 500 000?

MR SOKOMBELA: I think Ja, I think the threshold was 500 000 Chair.

20 **CHAIRPERSON**: Yes, so that is what, that is what quotations deals with.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: So if I want to look at anything relating to quotations then I have to look on, on, looks like the first two thirds of the columns, and then the last third deals with contracts?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Okay alright I think I understand it now.

MR SOKOMBELA: Yes, Chair, thank you. Chair then that table then for an example we showed there in that table that the number of awards that we, that were selected for testing and we also showed there the expenditure that has been incurred on the selected awards in the current year. Which is the current year was the year which is 2016/2017 id est. if you look at the awards selected for example, 7.6 billion Rands, so our calculations on that, out of that 7.6 billion Rands [intervenes].

CHAIRPERSON: Those are billions.

10 **MR SOKOMBELA**: Yes billions.

CHAIRPERSON: Everything we are dealing with here is billions it seems.

MR SOKOMBELA: Not necessarily Chair, for example [intervenes].

ADV MICHAEL MBIKIWA: Actually, not the quotations column because as Mr Sokombela has said that is where the value was low so that is only 11.7 million. But the contracts column is 7.5 billion, because those are as you said are the big-ticket items.

MR SOKOMBELA: Thank you Chair.

CHAIRPERSON: Okay, all right, yes.

20 **MR SOKOMBELA**: So Chair what I was saying is that where, where we would say expenditure incurred on selected awards in the current year, based on our – the information that we gathered was that out of that 7.6 billion Rand's, 3.4 billion Rand's was already incurred in the current year and that helps us to identify whether if there is non-compliance or there are transgressions on the awarding on those quotations or tenders,

whether there may be irregular expenditure or not.

CHAIRPERSON: Oh, okay so, the value of the 140 quotations that were selected was 7.6 billion Rands

MR SOKOMBELA: In total yes Chair

CHAIRPERSON: In total all of them.

MR SOKOMBELA: Absoutely Chair.

CHAIRPERSON: And then, then there was 3.4 billion Rand expenditure which was incurred during that particular financial year or not necessarily during that particular year?

10 **MR SOKOMBELA:** It is accumulative

CHAIRPERSON: It is accumulative

MR SOKOMBELA: Because some of the awards were might have made in the prior years but the contracts are still effective.

CHAIRPERSON: Yes okay, okay. I understand.

MR SOKOMBELA: Absoutely Chair Yes Chair, then on the next one Chair is the – is the limitations that were imposed to us on the awards that we had selected, for an example where we selected specific contracts or tenders, where we were not given, there you will see Chair the limitations that were imposed on us, we had four contracts at a value
20 of 279 million Rands.

CHAIRPERSON: Yes.

MR SOKOMBELA: And then Chair, then the next one we have got awards on which non-compliance was identified [intervenes].

CHAIRPERSON: I am sorry, before you proceed do you, did you get to know what percentage of the quotations 140 was? So, in other words you

looked at 140 that you selected that was not all.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: But did you know whether that was about 50 percent, that was about 10 percent, that was about 80 percent of the quotations for the relevant period?

MR SOKOMBELA: I do not have that statistics Chair.

CHAIRPERSON: You do not have?

MR SOKOMBELA: I do not have those statistics Chair, yes.

CHAIRPERSON: Because I am just wondering if – if the limitations that
10 related to four quotations, produced or the value thereof was 279 million, if you knew what percentage 140 was of the total quotations, one could have an idea of how much maybe we could be talking of. If it was 50 percent we could be talking about half, half a billion Rands. Okay, alright.

MR SOKOMBELA: Okay, okay. Thank you Chair. Chair the next one is award on which non-compliance was identified because after we selected these awards, we did test whether they complied with the legislation, Supply-Chain-Management-Policy or not, and what we found was that 121 of those awards to a value of 6.6 billion Rands did, were not [intervenes].

20 **CHAIRPERSON**: Compliant?

MR SOKOMBELA: Were not compliant with the Supply-Chain-Management-Policy and laws and regulations. And if you look [intervenes].

CHAIRPERSON: Well maybe let me ask this about those. Do you have any recollection or is it something that you would be able to find in your

report, whether the nature of the non-compliances related to serious non-compliances or whether it might have been just technical non-compliances, to get a picture as to maybe that maybe more than 50 percent of the non-compliances were situations where there was no compliance at all?

MR SOKOMBELA: There is a lot of those Chair, if I may, because in the – in the audit report of SAA as – as in terms as per the annual report, we have disclosed then in terms of what those non-compliances were and Chair, those non-compliances range from, range from – from the issue of
 10 SAA not going to an open tender, for an example the confining the – the procurement processes, and that, we found that that was contrary then to Section 51, paragraph, sub-paragraph-1, paragraph-A, Roman figure 3, of the Public Finance Management Act because that was not competitive or equitable and – and fair in terms of how they –they dealt with that. Other non-compliances that we have identifies Chair is situations whereby awards were made to – to contractors where the Tax Clearance Certificates from, that were confirmed by the South African Revenue Services were confirmed, and others were situations whereby the preferential point systems that we – that we were not awarded in terms of
 20 the Procurement Policy, Framework Act, I think that they call it the true PPFA. Some of the awards were – were awarded based on the calculations of points, that were not in terms of their original bid documents, in terms of how they were going to calculate their points to award the –the tenderers. And some of the awards for example were awarded where, for the suppliers that did not score the highest points,

you know, for the – for the tenders. And also, there were some awards that were awarded however the criteria that was applied to evaluate those tenders differed from the criteria that was in the original bid documents. So, among others those were the – those were the type of non-compliances that we – that we identified Chair.

CHAIRPERSON: Yes, no thank you.

MR SOKOMBELA: Chair I was still taking you through the – the table itself.

CHAIRPERSON: Yes.

10 **MR SOKOMBELA:** So what I was saying is that about 121 contracts with a value of 6.6 billion Rands, we found that there was non-compliance, however in the current year, we approximately about 103 were we could classify those ones as irregular expenditure to the value of 2.6 billion Rands. Chair, so that is – that is then the table Chair, I do not know Chair if you want me to go through each and every other number?

CHAIRPERSON: Mr Mbikiwa?

ADV MICHAEL MBIKIWA: I do not think that is necessary Chair because the – the total is a combination of both the quotations and the contracts. I just do want to ask, what the difference is between non-compliance and
20 irregular expenditure?

MR SOKOMBELA: The difference between, in actual fact there is no difference between the two, but if there is non-compliance that may result in irregular expenditure. But you may find out that the reason why maybe not the whole 6.6 billion Rands has – has been declared as a irregular expenditure is the fact that the expenditure has not yet been incurred

[intervenes].

ADV MICHAEL MBIKIWA: In that financial year?

MR SOKOMBELA: In that financial year yes.

ADV MICHAEL MBIKIWA: Thank you. So – so as you have just described as part of 140 contracts, that formed part of your Sample, 121, sorry not contracts, both quotations and contracts that formed part of your sample. 121 were non-compliant, and 103 resulted in irregular expenditure, is that correct?

MR SOKOMBELA: Yes Chair.

10 **ADV MICHAEL MBIKIWA:** That is 86 percent of tenders in, of contracts and quotations in that year which was non-compliant with the SCM Policy.

MR SOKOMBELA: Chair if you extrapolate, you know because I am assuming then that is an extrapolation to the sample [intervenes].

ADV MICHAEL MBIKIWA: Sorry 86 percent within your sample?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Yes, yes, Ja, Ja, of the sample?

ADV MICHAEL MBIKIWA: Of the sample, indeed.

20 **CHAIRPERSON:** And it could be worse, it could be better depending on – on what you find in terms of those that were not selected as part of the sampling.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Ja.

ADV MICHAEL MBIKIWA: Are you able to say whether it is representative? Whether a sample of 7.6 billion Rand in value is representative?

MR SOKOMBELA: Chair I think – I think it is representative because I think the state of non-compliance with Supply Chain Management Policy legislation at SAA is, the non-compliance is very low there, you know, I think in most instances [intervenes].

CHAIRPERSON: Well – well before you said very low

MR SOKOMBELA: Very high I am sorry Chair.

CHAIRPERSON: Maybe it is two negatives. Well I was wondering whether you were going to say it is horrible.

MR SOKOMBELA: Yes, Chair.

10 **CHAIRPERSON:** It is horrible.

MR SOKOMBELA: It is horrible, Chair.

CHAIRPERSON: Yes, okay, thank you. Well, excuse me, I go back to my earlier probing. If in the 2016/2017 financial year you found that out of 140 a sample of 140 quotations, transactions based on quotations, 121 were not compliant with the laws. How would it be possible that your predecessors could not have picked up even 10 out of the 121? Because I take it if they had picked up the 10 out of the 121 that you found or a similar percentage even if they did not go to the sale I would imagine that they would not have given a clean audit and you must just tell me if I am
20 misunderstanding things because I am not an Auditor. But that is the kind of questions that comes to my mind. If you take 140 transactions and you test them in terms of compliance and you find such a high number 121 not compliant and I am right in thinking that a clean audit means that your predecessors did not find any non-compliance, how is that possible? And again you must just tell me if you say Chair you are not an Auditor I can

see, so that is why you do not understand this.

MR SOKOMBELA: Ja Ja Chair, I think this is an area that I think as part of us requesting access to the Predecessors Auditors files, where we agreed with the previous Auditors because there was not much work that was done there and we agreed with them that on our side we were going to basically start from scratch, you know, because we wanted to see in terms of how much work they have done on Supply Chain Management but based on the feedback that I have received from my team and also the engagements also that we had with the Predecessor Auditors. Ja. There
10 was not much work that was done in that space.

CHAIRPERSON: You say that you discussed the issue with them, and they agreed that they had not done much work in regard to that?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Yes. Would that, what would not doing work on this kind of thing do if one were to look at how the Audit was done. I mean, would you, would one be able to say we did a good job, they did a good job if they did not do this or is the position that well really if you did not do this you cannot be said to have done a good job or is the position that look it is not a good reflection on them, but that is how far one can take
20 it. Or is the position that to say well these things do happen, you know even to the best Auditors. So I am, it is just that for me to find that 121 of 140 transactions that you have looked at were non-compliant. That is a very high number, that is why I was thinking you were going to say it is horrible and you did say, you describe it like that and if there was something so horrible even in the previous year's, how could it not have

been picked up and or was it a question of maybe a professional judgement not made to do - to do this kind of work and that is why. If you say look I cannot explain it feel free to say so. If you say look I do understand I just want to see how I must look at this kind of thing.

MR SOKOMBELA: Chair, I think what I can say on my side is that we – we tried to - we try by all means to ensure that we give guidance to the, especially the Auditors and private practices [intervenes].

CHAIRPERSON: Yes, yes.

MR SOKOMBELA: In terms of testing how to test Supply Chain
10 Management, because if you remember Chair yesterday, one of the things that we talked about is the difference between how are Public Sector Auditors or Government Auditors do the audit work as and – and Private Sector Auditors [intervenes].

CHAIRPERSON: Yes

MR SOKOMBELA: And what I said there is that us when it comes to compliance we are big on compliance and one important issue then to mention Chair is that because we know then that when it comes to compliance work there is a lot of guidance that we provide when the auditors in private practice are doing the audits of State Owned Entities.
20 We even give them the working papers that we use that has got the same procedures that we execute to ensure them that they are able to pick up the issues and we even, because what we also do, because in the audit of Supply-Chain-Management the audit office is quite advanced, because we are able also to even do the background checks using third party data. So that is a service also that we offer to them, for an example they will

get the data from the State Owned Entity, they give it to us then we will run Computer Assisted Audit Techniques, we call them CATS. We will run CATS for them. And those CATS will come off with conflict of interest, we will come up with duplicate payments we will come up with a lot of things so that they can be able to be empowered to – to execute the audit of Supply-Chain-Management successfully and also there is a lot of technical guidance, the memorandums that the audit office produces on a regular basis, that also gets given to the Private Sector firms and it is available on the website of the Auditor General. At times as well we
10 would have for an example a workshop, we would workshop them, we calling it as, we used to call it a Section 4-3 Workshop where all the Auditors of State Owned Entities that from the Private Sector firms will come so that we can workshop with them, specifically on the audit of Supply-Chain-Management as well as a audit of performance information because those are the areas that we understand that maybe they may not have the technical expertise.

CHAIRPERSON: And so – so your predecessors Price Waterhouse and Nkonki, they knew of the availability of that assistance, they would have known about its availability.

20 **MR SOKOMBELA:** I am sorry Chair; they knew and even some of the information for an example I would meet with them and I would give it to them.

CHAIRPERSON: Give it to them.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: So if there is any part of the job they did not do or did

not do properly it cannot be because there was no assistance available if they needed it.

MR SOKOMBELA: Absolutely Chair, absolutely.

CHAIRPERSON: But also, you mentioned earlier on that Pricewaterhouse is a big auditing firm and you talked about its reputation and so on. If one has regard to its size and its reputation and you might even know a lot about the skills they have, the expertise they have. Then one is entitled to look at the work done against the kind of expertise and that one expects from a firm like that.

10 So, if one has regard to that it may be that it is difficult to understand why this was not done. Would that be a fair comment as far as you are concerned?

MR SOKOMBELA: Ja ... (intervenes)

CHAIRPERSON: To say the least.

MR SOKOMBELA: Chair to say the least I think it is difficult to understand that.

CHAIRPERSON: Yes.

MR SOKOMBELA: I think also one other important aspect is that maybe people would say especially the firms would say may this is the speciality
20 of the AG. Us maybe we are good in auditing financial statements. Maybe that is where maybe our- most of our energy is going to be and I am speculating here Chair. I am not- I am just ... (intervenes)

CHAIRPERSON: Ja.

MR SOKOMBELA: I am just speculating in terms of, ja.

CHAIRPERSON: But of course, the answer to that is you should not take

work that you do not have the capacity to do. And you should not do- take work that you do not have skills or expertise necessary to do.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: So that is the one part. The second part, probably that kind of explanation cannot avail a firm like Pricewaterhouse. Even I do not know whether when it is a joint appointment as it was for those years it is possible for the one the partner to say, well no, that one was done by so and so. By the one we were joint appointed with so I am not responsible. I do not know whether that is possible.

10 But even then, I do not know whether Nkonki- it would avail Nkonki to sit to explain this by way of lack of any experience or expertise or capacity. I do not know, are you able to say anything about this?

MR SOKOMBELA: I think Chair like you said I think this- I said yesterday the PricewaterhouseCoopers is a global firm that has got professionals. At the time when Nkonki was still available or was still in the space as well was a medium sized firm. And then also then the people then that were intrusted with the audits were seasoned professionals.

And there were people then that where I am sitting, I would not have doubted- I would not doubt that they knew what the right thing was in
20 terms of what they were expected – what they were expected to do.

CHAIRPERSON: Well that is all very important for this Commission's inquiry because where something was not done properly one of the things one would look at is whether that was a result of incompetence or a result of negligence, a result of lack of appropriate expertise or whether it is something much more than that.

Whether people were aware of what they were supposed to do. They knew the true position but for certain reasons did not want to do the right thing. You understand?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Yes. Okay, thank you.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela I would like to take you to an aspect of the detailed audit findings.

MR SOKOMBELA: Yes.

ADV MICHAEL MBIKIWA: Attached to the management report.

10 **MR SOKOMBELA:** Absolutely.

ADV MICHAEL MBIKIWA: Can I ask you to go to file DD20C?

CHAIRPERSON: Should I close the one with the report or will we come back to it?

ADV MICHAEL MBIKIWA: We will come back to it at some point Chair but not for the time being.

CHAIRPERSON: Not now.

ADV MICHAEL MBIKIWA: You can close it for now.

CHAIRPERSON: Okay.

ADV MICHAEL MBIKIWA: And can I ask you to go to page 1104.

20 **MR SOKOMBELA:** 1104?

ADV MICHAEL MBIKIWA: Yes. This is titled, Lack of Effective and Appropriate Steps to Prevent Irregular and Fruitless and Wasteful Expenditure. And there are two tables, A ... (intervenes)

CHAIRPERSON: Before you proceed is this part- is this another report or is it part of the report we were looking at?

ADV MICHAEL MBIKIWA: Chair it is an Annexure to the report we were looking at.

CHAIRPERSON: Ja.

ADV MICHAEL MBIKIWA: And it was included in the page numbers that I gave you.

CHAIRPERSON: Ja. Okay, I think we must just identify it properly for the transcripts.

ADV MICHAEL MBIKIWA: Indeed.

CHAIRPERSON: Ja.

10 **ADV MICHAEL MBIKIWA:** Chair this is the Detailed Audit Findings attached to the Management Report.

CHAIRPERSON: Where does this particular Annexure start from?

ADV MICHAEL MBIKIWA: The Annexures ... (intervenes)

CHAIRPERSON: This page is I take it part of an Annexure that starts from somewhere earlier.

ADV MICHAEL MBIKIWA: It starts at page 950 Chair.

CHAIRPERSON: Okay, I think for the record if you just state that ... (intervenes)

ADV MICHAEL MBIKIWA: Indeed.

20 **CHAIRPERSON:** So that whoever reads the transcript knows.

ADV MICHAEL MBIKIWA: Yes, it is- it begins at 950 and we are at page 1104.

CHAIRPERSON: Okay. Does the particular Annexure have a particular title or anything like that?

ADV MICHAEL MBIKIWA: Indeed Chair. The title is ... (intervenes)

CHAIRPERSON: Let us specify all of that.

ADV MICHAEL MBIKIWA: Yes. The title is Annexure A, Matters Affecting the Auditor Report Financial Statement Related Findings.

CHAIRPERSON: Okay and you said it starts from 900 and?

ADV MICHAEL MBIKIWA: 950.

CHAIRPERSON: And it goes up to?

ADV MICHAEL MBIKIWA: The- Chair I need to check where ...
(intervenes)

CHAIRPERSON: Up to where it goes.

10 **ADV MICHAEL MBIKIWA:** A, B and C specifically begin.

CHAIRPERSON: Oh.

ADV MICHAEL MBIKIWA: I know where C- I know where the three Annexures end.

CHAIRPERSON: Yes. Okay, no that is fine.

ADV MICHAEL MBIKIWA: Oh no sorry, I do have it.

CHAIRPERSON: Uh-huh.

ADV MICHAEL MBIKIWA: It ends at 1171. Annexure B begins at 1172.

CHAIRPERSON: Yes okay, no that is fine. So, with every page that we going to it is important that we know if it is part of a larger document.

20 **ADV MICHAEL MBIKIWA:** Certainly.

CHAIRPERSON: What that document is, where it starts from and up to where it goes.

ADV MICHAEL MBIKIWA: Certainly Chair.

CHAIRPERSON: Okay alright.

ADV MICHAEL MBIKIWA: Mr Sokombela can you explain to us what

these two tables represent?

CHAIRPERSON: We are now back at page 1104.

ADV MICHAEL MBIKIWA: Sorry, 1104 Chair.

CHAIRPERSON: Ja.

MR SOKOMBELA: Chair these two tables what these two tables represent is that the first table represent what management has disclosed in the financial statements or the annual report. You would see there, Chair ... (intervenes)

CHAIRPERSON: Is that the one saying Type of Expenditure?

10 **MR SOKOMBELA:** There is one table that has got two, number 1, number 2 only.

CHAIRPERSON: Yes.

MR SOKOMBELA: Where number 1 is fruitless and wasteful expenditure.

CHAIRPERSON: Yes.

MR SOKOMBELA: Current year, the value is 40.4 million.

CHAIRPERSON: Mm-hmm.

MR SOKOMBELA: And then the other one is irregular expenditure current year the value is 125.9 million.

CHAIRPERSON: Yes.

20 **MR SOKOMBELA:** Absolutely chair with a total of 166.3 million.

CHAIRPERSON: Yes.

MR SOKOMBELA: So, Chair that is then the table that we were demonstrating in terms of what management has identified and reported in the financial statements themselves. However, in table B Chair we are listing then the number of the findings that we have identified as the Audit

Office.

CHAIRPERSON: Yes.

MR SOKOMBELA: Where then us we have identified it through the selection that we have done our own irregular expenditure as well as fruitless and wasteful expenditure.

CHAIRPERSON: Yes.

MR SOKOMBELA: If you look at that table it has got from the left-hand side number, description of findings raised. The other column is irregular expenditure, the other column is fruitless and wasteful expenditure. The
10 last column is the communication number that communication number is when we issue the findings to the Auditee.

CHAIRPERSON: Yes.

MR SOKOMBELA: We give it a number to say it is communication number 5, number 15, number 98 or number 100.

CHAIRPERSON: Yes.

MR SOKOMBELA: So, this is then the columnisation of the findings that we have issued to SAA that either has resulted in irregular expenditure or has resulted in fruitless and wasteful expenditure Chair.

ADV MICHAEL MBIKIWA: And if we go over the page to 1105, can you
20 tell us what the totals in respect of each of those were?

MR SOKOMBELA: Chair the total for irregular expenditure is 4.5 billion rand worth of irregular expenditure.

CHAIRPERSON: Yes, maybe you- just for record purposes you could give the exact amount.

MR SOKOMBELA: Chair the total amount for irregular expenditure is 4

521 956 053.46

CHAIRPERSON: Yes.

MR SOKOMBELA: I hope I read properly.

ADV MICHAEL MBIKIWA: Spot on.

MR SOKOMBELA: I was spot on. Okay.

CHAIRPERSON: Well if an auditor cannot read it properly then ...
(intervenes)

MR SOKOMBELA: Ja.

CHAIRPERSON: Nobody can. Yes okay. Then fruitless and wasteful
10 expenditure.

MR SOKOMBELA: The value of fruitless and wasteful expenditure total
value Chair is 3 684 621.61.

CHAIRPERSON: Yes. So, if you put the two together then you are at
about 4,8- is that right?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: 4,8 billion rand.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Putting irregular expenditure and fruitless and wasteful
expenditure together. And that this is not necessarily the true picture
20 because whatever you were doing was based on samples.

MR SOKOMBELA: Chair this is not a true reflection.

CHAIRPERSON: Yes.

MR SOKOMBELA: Of- because like I said yesterday, we test- we select
samples. Management then is required to go and look at the whole
population and come back to us and say, we have looked at the whole

population, we have identified 4.5 billion, we have identified 10 billion for an example. Then we will perform our own additional procedures to test the credibility of that number that management comes with it to us. And if then it is okay- that it is okay, then we will agree. Then they will disclose in the financial statements if we agree. Then it may not result in a qualification.

But in this instance Management could not- they did try to go and revise through the whole population but unfortunately, they were faced with the same challenges that we are faced with. And they considered hence if
10 you look at the financial statements the value that is disclosed there in that first table Chair of 125 million for irregular expenditure and of 40 million for fruitless and wasteful expenditure, it is because Management said we are going to be qualified anyway. So why bother to update the ...
(intervenes)

CHAIRPERSON: But that is- that must be irresponsible is it not? Because as Management you must want to know the true- the full extend of the problem. Tell me if I am being too harsh. I mean if auditors come and say you have a serious problem but we cannot tell you the true position because we work on sample. But if you look at what we have
20 found even based on samples, it is terrible.

You must- you would have to go and say, I really want to find out the full depth of the problem. Because what may need to be done must be done- must be decided upon on true facts. And I do not think it should be the right approach to say, oh we will get a qualified opinion anyway so it is fine. Am I being harsh on them?

MR SOKOMBELA: You are not being harsh Chair however it is whether it was practical for them to go because the magnitude of the problems was big. Earlier on I reflected in terms of the challenges that we faced with the contract management system. In terms of then the contract management at SAA is a big problem, it is a mess, I can safely say it is a mess basically. Because that asset – the contract register itself were not satisfied whether it is complete or not Chair.

So, for them I remember they started I think to go to- go to the whole population I think somewhere in September if I am not mistaken of 2017.

10 We signed the audit report by December but after about two weeks of them- because I remember they even developed the checklist in terms of how they are going to go about. And that checklist I think the Head of Internal Audit at SAA was requested by the Audit Committee to assist Management to do this exercise.

However, after I think about two weeks of performing that exercise for an example Management there were certain, for example there were certain contracts that they could not find. There was certain documentation even in the tender documents that they could not find an account for. And they considered and said they need more time for them. Not only a month or
20 two or three but they would need to actually have a dedicated team that would look into that and come up with a credible amount. So, you can see then that it was- the problem there was systematic as oppose to say maybe it is a mistake of someone. It was a systematic issue that could not just be corrected within a few weeks or so.

CHAIRPERSON: Yes, that may be so but certainly how are you going to

correct a problem if you do not know how far it goes? That is my concern. So that is part of my concern. But I go back to my question. It is difficult for me to think that SAA suddenly out of the blue in the 2016/2017 financial year found itself in this mess that you have told me about and that the other years when they were being given clean audits by Pricewaterhouse and Nkonki, there was no mess.

What do you say to that? I am finding it difficult to think that they were in this mess in which you- in what you described as a mess in 2016/2017 financial year just out of the blue in this financial year. But the other
10 years everything was fine. There was nothing anybody could pick up and say there is a problem here.

MR SOKOMBELA: Chair I might say our audit work at SAA including the audit work that we had done in supply chain management and the auditor financial statements and the audit opinion that we expressed is appropriate. And also, it is difficult for me to answer I think ...
(intervenes)

CHAIRPERSON: Ja, I know.

MR SOKOMBELA: Your question in terms of why this thing because I think for us that is what we found when we get there.

20 **CHAIRPERSON:** Yes.

MR SOKOMBELA: We found that things- it was a mess basically.

CHAIRPERSON: Yes.

MR SOKOMBELA: It was a mess, ja.

CHAIRPERSON: But I- you must be able to say to me looking at the mess that we found logically that mess must have been there at least or

half of it the previous financial year.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: That you can say.

MR SOKOMBELA: That I can say Chair.

CHAIRPERSON: Yes.

MR SOKOMBELA: Because that mess was systematic basically.

CHAIRPERSON: Yes.

MR SOKOMBELA: Because you cannot have a systematic issue this year- surely it might have been the way that things have been done at
10 SAA for quite some time.

CHAIRPERSON: Yes.

MR SOKOMBELA: So that is- because even for them because if it was the problem that was only started that year, they were going to be able to correct it immediately.

CHAIRPERSON: Yes.

MR SOKOMBELA: But if it is an accumulation of problems from the prior years then it may be very very difficult for them to think that they are going to address it immediately.

CHAIRPERSON: Yes. But let me see if you are able to go one step
20 further. We talked about the previous financial year. Are you not able to say even the year before that, this mess must still have been there or at least half of it or something like that?

MR SOKOMBELA: And Chair this is my opinion.

CHAIRPERSON: Yes.

MR SOKOMBELA: It is my opinion in terms of because when I looked at

the challenges that those guys had there, they were not challenges of that year. They were challenges that are coming from prior years.

CHAIRPERSON: Yes.

MR SOKOMBELA: And you can see even the culture, when you look at the culture this is how things are done here. So ... (intervenes)

CHAIRPERSON: And it was the wrong way of doing things.

MR SOKOMBELA: Absolutely it was the wrong way of doing things.

CHAIRPERSON: Yes. Is it not true that a clean audit for the 2015/2016 financial year when in your opinion this mess must have been there? It is
10 not a true reflection or could not have been a true reflection of the position at SAA?

MR SOKOMBELA: Chair I think like I said I think the most important thing for us to be able to get a credible opinion on that ... (intervenes)

CHAIRPERSON: Is to go to the board.

MR SOKOMBELA: Maybe is to go to the Independent Regulatory Board for Auditors ... (intervenes)

CHAIRPERSON: Yes okay.

MR SOKOMBELA: To find out whether then because myself where I am sitting, I am very careful of saying maybe perhaps this is what they
20 should have done. Because the board may come and say in actual fact, we have looked at their work and that clean audit opinion was appropriate.

CHAIRPERSON: But of course, you ought to be able to say, in my judgment in my opinion, in my professional opinion what my colleagues from that firm found when they said SAA deserved a clean opinion was

not justified. Whether the board agrees with you or not that is that. You are giving your opinion. If they come and say, no that was excellent. That is their own opinion. And you can disagree with them.

Just because they are the board does not mean that you have to have the same opinion as them.

Having said that it just seems to me that however you put it and of course Pricewaterhouse will come at some stage and put its side of story. But as I sit here it just seems to me that unless one finds an explanation- one is given an explanation that makes sense, it just seems this mess you are
10 talking about which you have found in the 2016/2017 financial year which you have said and I think you must be right it must have been there in the previous financial year in respect of which a clean audit was given. It just seems that it is incompatible with people who had done a proper job in auditing.

Now I am not an auditor but I am listening to what you are telling me. You are an auditor. It is just difficult to understand that in an entity where for five consecutive years an auditing firm gives a clean audit that is consistent with or rather the mess is consistent with what one would expect in an entity that gets a clean audit. You understand what I mean?

20 **MR SOKOMBELA:** I do understand Chair.

CHAIRPERSON: Yes.

MR SOKOMBELA: And what I can say is that on my side the concern that I had was what- whether the predecessor auditors considered that there is not enough work that we have done on supply chain management and you do not even have to look at that. Go and do your own work.

CHAIRPERSON: Yes.

MR SOKOMBELA: So, for me that is a concern. Maybe perhaps if they still going to come and maybe tell you in terms of ... (intervenes)

CHAIRPERSON: Why they did not do that part.

MR SOKOMBELA: How- why they did not do that part or maybe tell whether how they satisfied themselves into that.

CHAIRPERSON: Yes.

MR SOKOMBELA: But in terms of the engagements that myself I had with them, that is basically then what they told me.

10 **CHAIRPERSON:** Yes. They considered that.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: Yes. But would it- maybe I have asked you the question. For you it is as an auditor it is difficult to understand why they did not do it.

MR SOKOMBELA: It is difficult to understand.

CHAIRPERSON: Okay.

ADV MICHAEL MBIKIWA: We will of course hear from PWC later today. Mr Sokombela I would like you just to go to page 1105. It should be just over the page from where you are if you are not on it.

20 **MR SOKOMBELA:** 1105.

ADV MICHAEL MBIKIWA: 1105.

MR SOKOMBELA: I am there.

ADV MICHAEL MBIKIWA: And just read the last three- those three paragraphs under the table because that as I read it does involve some reflection on the prior years audit.

MR SOKOMBELA: There is non-compliance with PFMA as irregular and fruitless and wasteful expenditure was not prevented. The table above with a list of findings relate to irregular, fruitless and wasteful expenditure is not a complete list and some of the findings raised have not been assessed for auditor's conclusion. Due to management comments being outstanding that may result in a- okay I think we made ... (intervenes)

CHAIRPERSON: In a change of our assessment.

MR SOKOMBELA: It was supposed to be in a change of our assessment
10 there.

CHAIRPERSON: Ja.

MR SOKOMBELA: Thank you Chair.

Furthermore, the amount of opening balance relating to irregular and fruitless and wasteful expenditure is incomplete due to awards made in the prior years that were identified in the current year as irregular or relates to fruitless and wasteful expenditure.

Management must quantify the expenditure and adjust the opening balance for irregular and fruitless and wasteful expenditure as this may affect the audit report if left unadjusted.

20 **ADV MICHAEL MBIKIWA:** Can you just explain that last paragraph to us?

MR SOKOMBELA: The last paragraph Chair what we are saying because when we are selecting the tenders, there were tenders that were entered into in the prior years that was still active in the year that we are auditing 2017. So, when we tested then those tenders, we find that they were non-compliances that resulted in irregular expenditure. So, in terms of

the irregular expenditure guide from Treasury there is a certain way then that expenditure needs to be disclosed.

Meaning that we were saying then that restate the 5 million that you disclosed for the prior year where this with the additional irregular expenditure that you ought to have disclosed in the prior years. So that was our instruction to Management at the time because what we were cautioning them if they do not do that then that is going to result then in us modifying or qualifying the audit report.

ADV MICHAEL MBIKIWA: What did you say the amount of irregular
10 expenditure was in the prior year?

MR SOKOMBELA: Was about 5 million or 5.4 million or so- I do not have the exact figure but ... (intervenes)

ADV MICHAEL MBIKIWA: That is exactly right.

MR SOKOMBELA: Ja.

ADV MICHAEL MBIKIWA: It was 5.4 million.

MR SOKOMBELA: Ja.

ADV MICHAEL MBIKIWA: So, 5.4 million in the 2015/2016 year your sample that you have taken us through you have shown us irregular expenditure there of 4.5 billion. Is that right?

20 **MR SOKOMBELA:** Absolutely Chair.

CHAIRPERSON: Now the R5 million or so irregular expenditure the previous financial year is that as per the determination of your predecessors or is that as per the determination of management?

MR SOKOMBELA: I cannot remember that Chair whether it was identified by the previous auditors or by management. But management

do identify irregular expenditure as well.

CHAIRPERSON: Yes.

MR SOKOMBELA: And disclose it.

CHAIRPERSON: Yes, yes.

MR SOKOMBELA: However I cannot – I cannot remember this one whether it was because of the previous auditors or it was because of management.

CHAIRPERSON: Because it would be – okay. Is it possible to have a clean audit if there are serious – maybe I should not say serious – if
10 there is irregular expenditure?

MR SOKOMBELA: It depends.

CHAIRPERSON: It depends?

MR SOKOMBELA: It depends ja because...

CHAIRPERSON: On the amount?

MR SOKOMBELA: It depends for example on the amount because we have got a way of evaluating. Because irregular expenditure in its nature is qualitatively material. However then there are certain factors that we look into to arrive at a conclusion to say it is material that it may – the non-compliance can be escalated to the audit report or not.
20 And one of those factors is for example is there a trend. For example they may incur irregular expenditure of R5 million – R5.4 million this year but you see that you know – you know they made a mistake here and there you know so maybe...

CHAIRPERSON: Nothing significant.

MR SOKOMBELA: Ja maybe this year okay let us – let us see maybe it

was just a spur of a moment but then if next year again they incur the R5.4 million again you are going to say now there is a trend now. You know meaning that you are not – your controls are not effective enough to prevent this irregular expenditure. Normally then we will then escalate then that non-compliance to the Auditors Report to say, the Accounting Authority or the Board did not take effective steps to prevent irregular expenditure or fruitless and wasteful expenditure. But we – we do not just say the moment we incur it or immediately it goes to the Auditors Report we look at the qualitative considerations as well.

10 What are the qualitative considerations to arrive at that?

CHAIRPERSON: And what about fruitless and wasteful expenditure?

MR SOKOMBELA: Same principle.

CHAIRPERSON: Can you have fruitless and wasteful expenditure and still have a clean audit?

MR SOKOMBELA: It is the same principle Chair.

CHAIRPERSON: Yes.

MR SOKOMBELA: Because also we do look at the nature of that fruitless and wasteful expenditure as well. For example you may find that they have got fruitless and wasteful expenditure because due to
20 late payments of suppliers then they will incur interest there. And then you may find that maybe the situation does not allow them to pay these creditors on time. Even though it is still fruitless and wasteful expenditure we may assess it and maybe arrive at a conclusion to say maybe it is not because they are irresponsible or anything. Maybe it is because maybe they do not have money. But you may find that there is

another fruitless and wasteful expenditure whereby it is just – people are just wasting money. Then that one we can escalate to the Auditors Report.

CHAIRPERSON: Yes I was about to ask you because you remember we had a discussion about the difference between fruitless and wasteful expenditure and irregular expenditure.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Because you will remember the example that I made to you what remains in my mind is that if it is – if it is fruitless and
10 wasteful expenditure it means that you were wasting money.

MR SOKOMBELA: Absolutely.

CHAIRPERSON: You did not pay this money for any value that the entity got for that money.

MR SOKOMBELA: Absolutely chair.

CHAIRPERSON: So now if that is correct it is difficult for me to understand why you could have a clean audit if there is wasteful and fruitless and wasteful expenditure. Unless you say to me if it is a very small amount it might not affect the opinion but if – if you might – if you have a significant amount and we know you know that would be relative
20 to each entity. If you have a significant amount of fruitless and wasteful expenditure I do not see how you could still have a clean audit that is how I am looking at it. What can you say to that?

MR SOKOMBELA: No I agree with that – with your interpretation Chair. Yes. I agree with that. I must say I think SAA when it comes to fruitless and wasteful expenditure one of the things that trips them a lot

is the – is the immigration penalties. For an example the jurisdictions that they fly into if for example they fly a passenger to – let us say to Brazil but the passenger does not have a visa to go to Brazil then Brazil will say you going to take this passenger back to where you took with your own cost. You know so those are the types of fruitless and wasteful expenditure and we were very clear then to SAA to say they need to put mechanisms in place to ensure then that they are avoiding these. Because it can accumulate into millions and millions of Rands because they are flying these people you know to these destinations
10 and they ought to have ensured then that they have got valid travel documents.

CHAIRPERSON: We – we – you said that what you found as for example fruitless and wasteful expenditure did not necessarily reflect the true position because it was based on samples.

MR SOKOMBELA: Yes Chair.

CHAIRPERSON: But nevertheless it seems to me to be a very significant amount because if I am not mistaken it was – oh it is R300 million, is that right?

MR SOKOMBELA: Yes Chair.

20 **CHAIRPERSON:** Now even if it was R50 million in the context of SA that would be significant, is it not?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Even if it was R5 million would it not be significant still?

MR SOKOMBELA: It would be significant.

CHAIRPERSON: It would be?

MR SOKOMBELA: Hm.

CHAIRPERSON: So it is difficult for me to think that if you were correct in terms of the samples that you took that for 2016/2017 that financial year if there was a minimum of R300 million in terms of fruitless and wasteful expenditure it could be much more but the minimum of this it is difficult to think that the previous year there was no significant fruitless and wasteful expenditure. There was not even R5 million that your predecessors should have picked up.

10 **MR SOKOMBELA:** Absolutely.

CHAIRPERSON: Ja. And if they had picked it up on what you have told me they should not have given a clean audit for the previous financial year, is that right?

MR SOKOMBELA: If they...

CHAIRPERSON: If they had picked up fruitless expenditure – fruitless and wasteful expenditure of R5 million?

MR SOKOMBELA: And have – if they picked it up and have assessed it.

CHAIRPERSON: Yes.

20 **MR SOKOMBELA:** And have arrived at a decision that it is qualitatively material.

CHAIRPERSON: Yes.

MR SOKOMBELA: Then they should not have...

CHAIRPERSON: Yes.

MR SOKOMBELA: Issued a clean audit.

CHAIRPERSON: Yes.

MR SOKOMBELA: That is why it is important then that in terms of what were their considerations?

CHAIRPERSON: yes.

MR SOKOMBELA: What considerations then did they put.

CHAIRPERSON: Yes.

MR SOKOMBELA: Into that to arrive at certain decisions.

CHAIRPERSON: Yes.

MR SOKOMBELA: Yes.

10 **CHAIRPERSON:** Well you have been with – you have been with the – you have been in the auditing profession for a long time in terms of your own experience any entity that has got this kind of fruitless and wasteful expenditure in a particular year what are the chances that in the previous year it had none at all?

MR SOKOMBELA: Very low.

CHAIRPERSON: In terms of experience generally?

MR SOKOMBELA: The chances are very low Chair.

CHAIRPERSON: Yes. Thank you.

20 **ADV MICHAEL MBIKIWA:** Chair there was a finding of fruitless and wasteful expenditure of R7.3 million in the prior year. That will be addressed by Ms Hofmeyr in PWC's evidence later.

CHAIRPERSON: Yes okay.

ADV MICHAEL MBIKIWA: Mr Sokombela I would like to now focus on a few of the issues and transactions that the commission has already heard evidence about in the course of the aviation evidence hearings.

And I would like to begin with the Swissport Ground Handling contract.

Was that a contract that came across your radar as part of the audit?

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: Can you tell me about that?

MR SOKOMBELA: It is part of the findings here.

ADV MICHAEL MBIKIWA: Yes.

MR SOKOMBELA: It is attached.

ADV MICHAEL MBIKIWA: Yes I can take you there if it is helpful?

MR SOKOMBELA: Yes – ja maybe if you can take me there.

10 **ADV MICHAEL MBIKIWA**: We – if you in the same file and we are in the same annexure that we have been in it is 1077.

CHAIRPERSON: That is DD20C?

ADV MICHAEL MBIKIWA: DD20C Chair.

CHAIRPERSON: Exhibit DD20C.

ADV MICHAEL MBIKIWA: Indeed.

CHAIRPERSON: Page 117?

ADV MICHAEL MBIKIWA: 1077.

CHAIRPERSON: 1077.

20 **MR SOKOMBELA**: Thank you Chair. Chair this is the – I think this tender Swissport SA tender. It is a – it was one of our – when we were doing the risk assessment at – for the purposes of our audit at SAA it is one of the tenders that we have identified as – as a tender that we need to ensure that we test it. I think there was a lot of media attention to it and there were lot of challenges I think that were reflected there. And it formed part of our specific selection. You

remember yesterday I – when I was explaining the concept of sampling is that at times when you are doing your risk assessment for example things that are in the media or maybe there are divisions are done or maybe there are suspicions that the procurement process was not followed then what we normally do then is to identify those tenders and test them specifically. So this is one of those Chair. So one of the concerns that we had with this tender Chair is the fact that this tender it took four years between the closing date of the award and the date that this tender was awarded by the Board of Directors. And this is

10 something then that on our side was a challenge to say, why would a tender take so long to be awarded? And you will see there Chair that there is a heading that is written “Tender Reference Number GSM029/08”. That is – that is basically then – what you see there we are telling a story you know in terms of – so that we can have a background in terms of this – of this tender. And this tender was awarded not only to Swissport SA but also was awarded to Swissport SA as well BidAir. And it was for ground handling at the airport. And this tender was advertised on the 11 June 2008 and SAA – what SAA did they went on a confinement process to confine this ground handling

20 tender from the licenced ground handling service suppliers that they were very few you know because the airport’s company of South African Licences is the one that is the licencing authority in terms who – which companies will be ground handling companies in a particular airport. So in that year Chair I think there were about four suppliers that were – that were operating at the airport. Those were Equity Aviation. The

other one was Menzies. And then Swissport SA and then the other one was BidAir. And then Chair this tender the request for proposal it indicated that critical criteria where the bidder must have a valid ACSA licence in order to qualify for SAA business. Meaning that if for example the tenderer did not – did not meet that required criteria then they will be disqualified from the tender itself. What we – what we saw Chair was that Swissport SA at the time or when – on the – at the time that the tender closed they did not have a licence from ACSA to provide the ground handling services. I think the closing date if I am not
10 mistaken was the 1 July 2008. And the letter – there was a letter Chair that was – that is dated 14 July 2008 from I think from the Swissport President and CEO that was addressed to the SAA. That indicated that Swissport SA has been awarded the third ramp handling licence which was effective from 1 September 2008 for a period of five years with an option to renew. Remember Chair I said the closing date of the award was the 1 July 2008. And then there is a letter from the – from the Swissport President and the CEO that is written to SAA indicating that Swissport has been awarded the handling – the third ramp handling licence effective from 1 September 2008.

20 **CHAIRPERSON**: So later than the closing date?

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Hm.

MR SOKOMBELA: Upon then my team then inspecting the email from an official from the Airports Company of South Africa that was dated 4 June 2008 I think the official is a – was a Group Manager Legal at

ACSA. It was noted that at the time of submission of the proposal by – to bid by Swissport and Equity Aviation. They were I think big – Swissport and Equity Aviation were on the short list at ACSA for the licence. They were not – they were only – they were only short listed...

CHAIRPERSON: They were not in possession?

MR SOKOMBELA: Absolutely.

CHAIRPERSON: As yet.

MR SOKOMBELA: For the grounding licence and they did not have a licence. However the concerns then that we had was that Swissport
10 was still evaluated you know through that critical criteria for having a valid ACSA licence. You know even though by 1 July 2008 they did not have it. So that was one challenge. And the – during the evaluation SAA evaluated also the proposal submitted by Equity Aviation, Swissport and BidAir. I think the evaluation was done on the 22 October 2008 and a letter of award was sent to – was sent to BidAir and Swissport indicating that they have been awarded the contract for ground handling services for the tender. I think the effective date according to the letter of award was the 1 February 2009 for a period of five years. On 30 June 2008 Chair one of the tenderers I think Menzies
20 sent a letter to – requesting an extension on the submission of the bid document provide – they were providing reasons that the other suppliers were at an advantage to send a proposal to SAA because they were already doing ground handling services for them anyway. So I thing Menzies then felt that they are being disadvantaged so they wanted then SAA to extend the deadline so that they can have an

opportunity to submit the tender. However SAA did not grant that extension. And that ended up Menzies then taking SAA to court you know and on the 4 December then 2009 the High Court of Johannesburg ruled in favour of Menzies. I think it is under the case number 09/22988 and the decision then that was made there was setting aside the tender process as it was – as it was found to be unconstitutional and unlawful in that Section 217 of The Constitution was not complied with. In that the process was not in accordance with the system which is fair, equitable, transparent, competitive and cost effective. On the basis that SAA granted an unfair advantage to 10 Swissport and BldAir since they were supplying SAA with ground handling services six months before the proposal was sent to – and also that they will be having all the requirement – all the required documents for them to be able to satisfy the requirements of the proposal. One of the concerns then that we saw there is that even though that contract was set aside it appears that SAA continued with the contract of award. Did not stop and it was awarded until the end of the contract.

CHAIRPERSON: They just disregarded a court order?

20 **MR SOKOMBELA:** That is what – that is what appears.

CHAIRPERSON: Yes that is what appeared.

MR SOKOMBELA: That is what appears.

CHAIRPERSON: Hm.

MR SOKOMBELA: It appears that they continued. My team member that was responsible for this also engaged with this – with sourcing

specialists that was responsible for this grounding handling – that handled this. It is just that I do not have the name of the sourcing specialist Chair. And apparently this sourcing specialist indicated that although the High Court set aside the tender process as it was found unconstitutional and unlawful. The then CEO of SAA I think it was Ms Mzimela, the CEO of Swissport as well as the CEO of BidAir agreed to continue with the contract until the end of the contract. You know so I do not know what was the basis for...

CHAIRPERSON: Ja for that.

- 10 **MR SOKOMBELA:** From them agreeing to say the High Court has set aside the contract but then it continued. You know – so that was the first concern that we had with this – with the Swissport tender. But then Chair there was another tender also I think it is – the reference number for that tender is GSM 39/11. Because that tender SAA again went on a confinement process again also for the ground handling tender and also confined it to I think to three service providers this time being Swissport, BidAir and Menzies for the ground handling services. And the closing date was he 27 May 2011. On 18 May 2012 it was the final selection of suppliers and the cross function sourcing
- 20 team of SAA recommended the award of the services to BidAir to Menzies and Swissport SA for five years and you will see Chair that there is a table – there is a table A in that finding where the table A then was specifying in terms of the types of ground – the type of ground handling services that which ground handling services is SAA awarding to each supplier and at what cost is SAA going to incur or is

going to award the contract with. If you see on – on table A the ramp handling was awarded to Swissport SA for R1.2 billion. And the power auxiliary unit and wheelchair services to Swissport SA to the value of R131 million. And the baggage weighing it was not awarded. The ground power unit to Swissport SA to the value of R85 million. The bussing was awarded to BidAir to the value of R81 million and the aircraft interior cleaning was awarded to Swissport SA for the value of R109 million. Document verification was awarded to Swissport SA for the value of R20.6 million. And the value – the toilet and water was
10 awarded to Menzies to the value of R96.9 million. And then the express and courier cargo was not awarded provision of driver, flight operation not awarded. And the crew transport was awarded to Swissport SA to the value of R52 million.

ADV MICHAEL MBIKIWA: Mr Sokombela can I pause you there?

MR SOKOMBELA: Hm.

ADV MICHAEL MBIKIWA: It is not necessary for us really to go through all the detail of this.

MR SOKOMBELA: Okay.

ADV MICHAEL MBIKIWA: Because it has in fact been traversed
20 already in the aviation evidence.

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: Just to assist you the evidence we have heard previously is that a tender process was run as you have just described

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: But that no contract was signed for a period of four years or so and that over that period Swissport provided ground handling services on a month to month basis but that a contract was only subsequently signed in 2016 and that the rationale was that the 2016 contract was grounded in or routed in the tender process that had been run in 2012. Does that accord with your memory?

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: Can I ask you – and it is – that history is set out on pages 1078.

10 **MR SOKOMBELA:** Ja.

ADV MICHAEL MBIKIWA: And 1079.

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: But just on 1079 if you can go to the foot of the page? Can you take us through the last two paragraphs at the bottom of 1079?

MR SOKOMBELA: Where Chair it is saying validity period of the tender?

ADV MICHAEL MBIKIWA: Indeed.

MR SOKOMBELA: Okay. Chair they say:

20 “Validity of – validity tender period of tender GSM’s Rule 3/2011 RFP GSM’s Rule 39/2011 indicated that the tender is valid for 370 days from the closing date being 27 May 2011. Therefore tender was valid until 30 April 2012. On 31 July 2012 letter or awards were sent to Swissport SA and BidAir indicating that SAA

wishes to extend the validity of the bids for a further period of three months and it also indicated that in the event that SAA does not receive any objection to its intent to extend the validity period your acceptance thereto shall be assumed. Based on the information on the file there is no proof that extension of validity was also requested from Menzies Aviation South Africa PTY LTD.”

ADV MICHAEL MBIKIWA: Thank you. And if you go over the page the
10 – the audit findings deal with some case law there but if you go below there it says:

“Therefore SAA negotiations to extend the validity period after expiry with Swissport SA and BidAir lacked transparency.”

What did you mean with that finding?

MR SOKOMBELA: Chair what we mean with that finding is the fact that the validity period for the tender was already expired and there is a court case that you know that there is a precedence on this particular issue because the court case Chair that – that we reflecting there is
20 that of Telkom SA versus Merit – I think Merit Trading PTY LTD and others. Where then it was held then that if – the – as soon as the bid validity period has expired without making an award then that tender then is unsuccessful. Then it does not need to – you know we need to start from scratch.

CHAIRPERSON: Ja.

ADV MICHAEL MBIKIWA: And in the middle of the page that deals with the chronology that I have just taken you through with the signing of the contract in the last row of that table on the 14 March. Can you just read the paragraph below the table?

MR SOKOMBELA: Just below the table Chair?

ADV MICHAEL MBIKIWA: Yes “it should be highlighted”.

MR SOKOMBELA: Okay.

10 “It should be highlighted that the protracted procurement process may also hinder SAA’s ability to fulfil its mandate and to capitalise on port and shell cost savings. The fact that SAA ignored the court ruling to set aside the GSM 239/2008 tender is unlawful and thus irregular.”

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela just – just explain what – you know you selected a sample of contracts and transactions and tenders to look at. What put Swissport on your – on your radar? Why did you select that as part of your sample?

20 **MR SOKOMBELA:** Chair that was – that was as a result of the risk assessment process that we have conducted and the tender, the Swissport tender was one of those tenders that was on the radar for us to actually ensure that we select it and test it because the risks associated with us not testing that tender was very high. Meaning that for us to mitigate our audit risk to an acceptable level we ought to have ensured then that we selected and tested that tender.

ADV MICHAEL MBIKIWA: And the contract that was entered into in –

the Swissport contract was entered into on the 14 March 2016 that is the previous financial year. It does not fall into your financial year?

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: Of course the tender process too was in a much earlier financial year.

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: And in that time there was month to month contracts.

MR SOKOMBELA: Absolutely.

- 10 **ADV MICHAEL MBIKIWA**: Do you – had you been auditing the previous year? Would this have been a contract you would have included in your sample?

MR SOKOMBELA: Chair I would have included it in my sample if it was not selected by the previous auditors and if they did not test it. Then – and also if the contract was still effective in the current year. Sorry I would have – ja – it would have fallen within my scope of work.

ADV MICHAEL MBIKIWA: Chair I see we have reached one o'clock.

CHAIRPERSON: Yes. Remember you were along in making an assessment yesterday.

- 20 **ADV MICHAEL MBIKIWA**: I deeply regret the assessment Chair.

CHAIRPERSON: How far are you from finishing with the witness?

ADV MICHAEL MBIKIWA: Chair I want to take Mr Sokombela through two or three other transactions that we have dealt with in the aviation evidence and then we are just about done.

CHAIRPERSON: How long do you estimate it to take?

ADV MICHAEL MBIKIWA: I tried to avoid answering that. Chair...

CHAIRPERSON: Well we need to look at that.

ADV MICHAEL MBIKIWA: Yes.

CHAIRPERSON: For the reason that today we cannot go beyond four o'clock.

ADV MICHAEL MBIKIWA: Indeed.

CHAIRPERSON: So we need to see whether we will start with the next witness or not because if we will not start with the witness then it may well be that they can be released to a date that we must – we will use.

10 So that is why I am trying – because if he is going to – if you are going to need an hour from two to three then we are left with another hour so the question is whether if we finish at three with him we would use the next hour for the witness or whether we would look for another day. But it may be that we should use the next hour but what if you might go to beyond three o'clock? We must think about that.

ADV MICHAEL MBIKIWA: Yes. Chair I do think I would conclude by three o'clock.

CHAIRPERSON: By three o'clock?

ADV MICHAEL MBIKIWA: Yes.

20 **CHAIRPERSON:** And I know that you would be saying internally subject to the Chairperson's questions.

ADV MICHAEL MBIKIWA: Always subject to the Chairperson's questions.

CHAIRPERSON: And then we could use whatever time is left for the next witness.

ADV MICHAEL MBIKIWA: The remaining hour yes I think so Chair.

CHAIRPERSON: Ja. Okay alright. Let us take the lunch adjournment we will – it is about three minutes past one we will resume at five past one – five past two. We adjourn.

REGISTRAR: All Rise.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: Are we ready?

ADV MICHAEL MBIKIWA: We are indeed Chair.

10 **CHAIRPERSON:** Thank you. Let us continue.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela, you were telling us before the lunch adjournment about the Ground Handling Contract with Swissport. I want to deal with just a few other contracts and transactions that have formed part of the aviation evidence so far. The first is one that you have actually dealt with already which was the 30 percent set aside decided for - by the Board for procurement from SMMEs.

20 We are back in File DD20C at page 1-0-8-1. It is not necessary for us to deal with any of this. It - it really you - you did summarise it earlier. I just want to go to page 1-0-8-2. The - the two paragraphs above “Process and Selection Award of BEE Companies”. That is the finding of the Auditor-General. Will you just read those paragraphs?

MR SOKOMBELA: Chair, is this - I see that there is a - a paragraph and one sentence. Is - is that those ...?

ADV MICHAEL MBIKIWA: Indeed.

MR SOKOMBELA: Those two? Okay Chair. That one is - reads as follows:

“Based on the information provided to the AGSA. The practice of allocating or selecting or setting aside of 30 percent of the contract award to BBBEE suppliers is not in accordance with SAA’s SCM Policy or any specific procurement legal framework and Section 217 of the Constitution. The selection and the valuation process for the BBBEE suppliers is further discussed below.”

ADV MICHAEL MBIKIWA: The - the evidence you gave earlier was that both National Treasury and the Department of Trade and Industry indicated that the 30 percent set aside was unlawful. Is that - was that right?

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: Do you remember when the Board decision was taken and when that advice was given? Do - do you remember what year that was in?

20 **MR SOKOMBELA:** Chair, if - if you go into - to the - to the previous page. I think it is page 10-8-1. That is - that is where we are dealing then with specific correspondences between the Department of Trade and Industry. No sorry. Not Department of Trade and Industry. I think it is the - it is the BBBEE Commission. If I am not mistaken. For the BBBEE Act and also then the National Treasury.

I think what - what is - what is worth noting here is that we - we obtained a letter - I think - dated 13 September 2015 from the - the office within the Department of Trade and Industry of the - of the BBBEE Commissioner. That was addresses to the - the Chairperson of the Board wherein it - it was - I do not know Chair if you want me to go through in terms of what ...?

ADV MICHAEL MBIKIWA: I am - I am actually only asking ...

CHAIRPERSON: Hm.

MR SOKOMBELA: Hm.

- 10 **ADV MICHAEL MBIKIWA:** Whether this - my understanding is that this would - these decisions were taken and this advice was given ...

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: Actually in the previous audit year.

MR SOKOMBELA: Chair ...

ADV MICHAEL MBIKIWA: Is that correct?

MR SOKOMBELA: Absolutely Chair, because I - I think you asked Chair the letters when - when the letters ...

ADV MICHAEL MBIKIWA: Indeed.

MR SOKOMBELA: Maybe let me give you the dates.

- 20 **ADV MICHAEL MBIKIWA:** Thank you.

MR SOKOMBELA: The date for the office of the BBBEE Commissioner was on 13 September 2015 and the letter from National Treasury was 28 September 2015.

CHAIRPERSON: Hm.

ADV MICHAEL MBIKIWA: Thank you.

CHAIRPERSON: *Ja.* Probably that is just the part that is important, because just to put the context, because I have heard a lot of evidence about those letters already.

ADV MICHAEL MBIKIWA: Indeed.

MR SOKOMBELA: Okay.

ADV MICHAEL MBIKIWA: Thank you Chair. The next issue Mr Sokombela was the selection of Swissport's BEE companies. Can you recall what issues the Auditor-General found in that regard?

MR SOKOMBELA: Chair, it is important for - for - to - to note that we
10 did not see the requirement in the tender that - of the - of the BBEE. However I think in 2016 in a memo that the - the Chief Financial Officer of SAA to the Board it was noted then that the - the selection of the BBEE firm it was not clear in terms of then how that selection process was done and what - what is - what is important then to note is that, because I think the - the Swiss - Swissport and SAA could not agree on how the BBEE firm should be - should be appointed or selected and then the - the - I think SAA then terminated the - the services - sorry.

Terminated then the contract with - with Swissport. I think on the 16th - it - it said it terminated on 16 February 2016 wherein SAA has
20 then provided them with a termination notice of 60 days. So that is - that is one of the - of the things then that we found and also what we also found that in that memorandum is that it was recorded in the memorandum then that after then that termination - letter of - of termination was issued to - to Swissport.

Then the SAA and Swissport representatives held off record

discussions and an agreement was reached into - to enter into a five year - into a five year contract beginning 1 April 2016 until 31 March 2021. So I think those were the - those were the key issues and also what we were concerned about is why were the discussions done off the record ...

ADV MICHAEL MBIKIWA: Hm.

MR SOKOMBELA: And okay we further requested them to say, okay maybe somebody might have written notes in terms of what were the deliberations there. So that we can see in terms of how did they arrive
10 at - at that decision, but I think management then said to us if off record discussions do not have - do not have notes. You know.

So I think that was - that was the issue on that - on that selection of the - of the BBBEE firm. I think another issue, because what we did then because JM Aviation was - was I think was then the BBBEE firm that Swissport utilised and it was not clear in terms of how JM Aviation was appointed to be this BBBEE firm, but we did just at a high level some background checks.

You know using the - the Companies and Intellectual Property Commission website and we realised that there is - there is common
20 Directors between Swissport SA as well as - as well as JM Aviation and these - these common Director - these common Directors then - it was - that was a concern for us. To say there is this BBBEE firm that has been - that now is going to be a BBBEE firm of Swissport, but it appears that there is a Director - this - there is a Director at Swissport that is also a Director at - at JM Aviation.

So that was a red flag for us to say this should have been a conflict of interest also. Why this thing was not - was not - you know - identified or why this thing? So - so to ask how this thing it reflected. You remember Chair yesterday I said our responsibility as the - as the auditors is not to audit - to identify fraud, but where we identify potential areas we highlight them to management and this is one of the areas whereby we said this is an indicator and then we said to management please investigate this thing further in terms of what happened.

- 10 **ADV MICHAEL MBIKIWA**: Indeed. I was about to take you to precisely that. Can you turn to 1-0-8-4? Sorry. You actually go back to 1-0-8-3 and right at the bottom of the page it says:

“Recommendation - Management should ...”

Do you see that?

MR SOKOMBELA: Yes Chair.

ADV MICHAEL MBIKIWA: And then - and then ...

CHAIRPERSON: Well maybe he should identify the ...

MR SOKOMBELA: Yes.

CHAIRPERSON: People who were Directors in both.

- 20 **ADV MICHAEL MBIKIWA**: Yes.

CHAIRPERSON: *Ja*. Will you just do that?

MR SOKOMBELA: Chair, the - the common Director that we saw was one Director by the name of Vuyisile Aaron Ndzeke. Who was a Director for both Swissport as well as JM Aviation and the status in the CIPC website was active.

CHAIRPERSON: Yes. Okay. Thank you.

ADV MICHAEL MBIKIWA: Thank - thank you Chair.

CHAIRPERSON: *Ja.*

ADV MICHAEL MBIKIWA: Mr Sokombela, at the bottom of 1-0-8-3 it says:

“Management should ...”

And it is under the heading of “Recommendation”.

MR SOKOMBELA: Yes Chair.

ADV MICHAEL MBIKIWA: If you - if you go over the page there is a
10 series of recommendations improving controls, conducting contractual
negotiations in a timely manner. The - the fourth bullet point will you
read that one?

MR SOKOMBELA: “Reconsider the approach of the Supplier
Development Program and the 30 percent BBEE
Contract allocation and ensure that principles of
Section 217 of the Constitution and instructions of
National Treasury and DTI are adhered to.”

ADV MICHAEL MBIKIWA: And the following one?

MR SOKOMBELA: “Consider undertaking an investigation
20 into the selection process of JM Aviation as a
BBEE supplier.”

ADV MICHAEL MBIKIWA: And the last one.

MR SOKOMBELA: “Consider and disclose irregular
expenditure of 362 million arising from the above
mentioned findings.”

ADV MICHAEL MBIKIWA: Thank you. Now you indicated that these off the record discussions could be an indicator of fraud. That in fact formed part of the auditor's conclusion. If I can take you to 1-0-8-5. The heading there at the very bottom of the page is "Auditor's Conclusion" and it says:

10 "Management's response is noted and additional engagements were held with Management on 12 September 2017 and Management agreed that there were numerous issues relating to the tender and if you go over the page."

And if you go over the page.

"The finding is based on the requirements of Section 217 of the Constitution of South Africa which requires an organ of State which contracts for goods or services to do so in accordance with the system which is fair, equitable, transparent, competitive and cost effective."

20 Can you go down to the - the last heading which says "Contract Allocation Set Aside to BBEE Suppliers and Process and Selection Award ..."

MR SOKOMBELA: Yes Chair.

ADV MICHAEL MBIKIWA: "...of BEE Companies" are you there?

MR SOKOMBELA: Yes Chair.

ADV MICHAEL MBIKIWA: The - the second paragraph under that heading says:

“With regards to the off the record meeting held with Swissport by Management. That will not be accepted as the audit - auditors cannot validate the discussions held because they were not recorded. This is an indicator of fraud and further investigation must be done.”

Do you know whether further investigation was thereafter done?

MR SOKOMBELA: Chair, I do not have an idea if that further investigation was done or not.

10 **ADV MICHAEL MBIKIWA:** Thank you. The last transaction I would like ...

CHAIRPERSON: Mr Mbikiwa ...

ADV MICHAEL MBIKIWA: Yes Chair.

CHAIRPERSON: You asked the witness to look at the recommendations which - where it says Management should, but I see below that there is a response from Management.

ADV MICHAEL MBIKIWA: Indeed Chair.

CHAIRPERSON: Did you - was it oversight not to ask him to tell me what the response was?

20 **ADV MICHAEL MBIKIWA:** It was Chair.

CHAIRPERSON: Hm.

ADV MICHAEL MBIKIWA: The - the - I - I went straight to the auditors' conclusion which incorporates what Management's response was, but - but perhaps Mr Sokombela you could - you could tell us how Management responded to the recommendations raised by the

Auditor-General.

MR SOKOMBELA: Chair, I think initially there was - there was push back from Management regarding this finding. They did not agree to the - to the finding itself and what - what is - what is important was that Management even distanced themselves from the appointment of the BBEE firm saying that is a matter that is between Swissport and JM Aviation. It has got nothing to do with them.

Save to say the Board of - the Board of Directors were the ones that made a Resolution in terms of how - how they need to - how
10 this contract ought to - to look like and if you look at the evidence that I presented Chair. There was that memo where the - the contract was - was terminated and there was 60 days' notice and then there were off record discussions and after the off record discussions all of a sudden then JM Aviation is coming to the fore. So that was the issue. So we deliberated where ...

CHAIRPERSON: Well I am surprised that is what they told you, because evidence has been given here that part of the Board and part of Management even took a trip to the US. So - *ja*. Okay.

MR SOKOMBELA: *Ja*, Chair. *Ja* and - and Chair we - we - I think on
20 12 September 2017 we - we met then especially the - the then Acting Chief Procurement Officer, because he was the one then that was responding to these - to the - to the finding itself, because they could - based on what we found.

It was very difficult for them to defend it. You know and they ended up conceding to - to the finding itself. Hence then we ended up

in the auditors response. Then recommending further in terms of what we - what - what needs to be done regarding this particular transaction.

ADV MICHAEL MBIKIWA: Mr Sokombela, do you recall whether a contract involving The New Age Media formed part of your sample?

MR SOKOMBELA: Chair, I - I - what I - what I remember was that there was a - a contract that we selected relating to the company that owns New - New Age Media. It is called - Chair - I just forget the name.

ADV MICHAEL MBIKIWA: I can - I can take you to the page.

10 **MR SOKOMBELA:** *Ja.* TNA.

ADV MICHAEL MBIKIWA: It is 1-0 ...

CHAIRPERSON: TNA - TNA Media. Is it?

ADV MICHAEL MBIKIWA: TNA Media.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: TNA Media.

MR SOKOMBELA: *Ja,* TNA Media. Yes.

ADV MICHAEL MBIKIWA: It is at 1-0-9-1.

MR SOKOMBELA: Yes. Thank you Chair.

20 **ADV MICHAEL MBIKIWA:** And - sorry. If you go back to 1-0-9-0 that tells you what this table is.

MR SOKOMBELA: Yes Chair.

ADV MICHAEL MBIKIWA: What were - what was the issue identified in respect of the TNA Media Contract?

MR SOKOMBELA: Chair, we did not get the information for us to enable us to be able to - to audit this tender. It was one of the

information that was a limitation of scope.

ADV MICHAEL MBIKIWA: And can I ask that contract value is R1.3 million which in the scheme of things is very small. Why would you have selected that contract as part of your sample?

MR SOKOMBELA: Chair, I think as part of the risk assessment process that we - we did at SAA. We - there is - there is a lot of contracts that we have identified as risky - as risk contracts due to a number of reasons. For an example the - the TNA Media Contract was a subject of media reports. You know.

10 So inasmuch as the value is very low. However the public interest as far as that - that contract was concerned was very high. That was the reason and it is part of the specific selections that we - that we selected specifically - that one.

ADV MICHAEL MBIKIWA: And on the right hand side - this is on page 1-0-9-1 - in the right hand column where it lists the information not submitted I understand that is what SAA failed to provide to you ...

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: And these documents ...

CHAIRPERSON: That seems a lot.

20 **ADV MICHAEL MBIKIWA:** I was going to say.

MR SOKOMBELA: It is a lot.

ADV MICHAEL MBIKIWA: It seems to be virtually every document that would have formed part of a procurement process.

MR SOKOMBELA: Absolutely Chair.

ADV MICHAEL MBIKIWA: And ...

MR SOKOMBELA: It is a ...

ADV MICHAEL MBIKIWA: Would it be standard practice for you to ask for every document that or that would form part of such a process to identify compliance with SCM Policy?

MR SOKOMBELA: Absolutely Chair, because we need to reperform the - the awarding.

CHAIRPERSON: Hm.

ADV MICHAEL MBIKIWA: And that would include BEC and BAC Minutes?

10 **MR SOKOMBELA:** Absolutely Chair.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela, I would like to now take you back to your affidavit. That is in DD20A and we can pick it up at page 38. Can you - you have - you have now taken us through the issues - the kind of key concerns that you identified during the course of the audit.

Can you - can you take us through what in the audit opinion in - in your final audit report what findings you made and the - the qualifications and restatements that you made?

20 **MR SOKOMBELA:** Thank you very much Chair. Chair, it is - it is important to note that the - the - we - we documented - in the Executive Summary of the Management Report is an attachment to this affidavit as PS25 where we have documented our key insights in - in - into the audit report especially the qualification areas or - or the modification areas.

I think that is from pages 10 to 12 of the Executive Summary,

but the concerns that we - we had Chair was that the - one of the qualification areas was on Property, Aircraft and Equipment. We have - it was modified as a result of a number of material findings that we - that we raised and this line item in the annual financial statements and if I - if I can explain that Chair.

Is that there is various findings there in that balance - in the - in the balance sheet that we find. One of the issues that we had is that there is - there - the existence. SAA buys a lot of components for the aircrafts and these components Chair are very, very expensive. An
10 engine can cost as much as R60 million to R90 million at times and if I remember correctly we could not verify existence of components of the - of the craft or we call them major spare parts or at - at the airline industry they are called A Class Rotables - to the value of over R2 billion.

We could not verify existence to those - to those aircraft - to those major spare parts. For - for us that was a - a big concern, because also even for the - that is a requirement for even in the - in the - for airworthiness of the - of the aircraft to ensure then that where those major spare parts are. For an example if the spare part has been
20 stored in an aircraft.

You ought to - to have a source document that will tell the auditor to say this aircraft - this - this part has been installed in A340-600 for an example or what - whatever aircraft it is and they call those documents dirty fingers, because the technician that is the one then that is installing these particular parts needs to write in a job card in

terms of what are (indistinct) and you will find then that the job card itself then will have oil and - and stuff and they - they call it the dirty fingers.

So - so that - that was - that was the type of information that we could not get. At times for example they will send maybe a certain part for repairs maybe somewhere in Europe or America. Then they could not - there should be source documents also that will tell us to say, no this - this spare part has been dispatched to wherever location they - they need to send it.

10 So that it can be - it can be verified that it was sent for repairs. So when it comes then for us testing whether then the assets exists - these major spare parts exist or not. We could not satisfy ourselves with that. Another challenge that we had on assets Chair was the challenge of ...

CHAIRPERSON: I am sorry. Does that mean that there were records which suggested that certain parts had been installed, but you could not - there was no - no proof of such installation or was the position that there were no records indicating any installation of - of parts or where certain parts that are important to - for an airline to keep where
20 they were kept?

MR SOKOMBELA: Chair, when - when we are doing the physical verification.

CHAIRPERSON: Hm.

MR SOKOMBELA: The expectation especially for the major spare parts
....

CHAIRPERSON: Hm.

MR SOKOMBELA: The expectation would whether maybe this major spare parts are in a warehouse or in a storeroom or if they are not in a - they are not in a warehouse. They are either installed in an aircraft or if they are not installed in an aircraft. Then they - maybe they have been sent somewhere for repairs. Then in all of those instances if we cannot find them to verify them physically at - at the - at the warehouse.

Then they need to prove then to us to say, no. They are not
10 here at the warehouse. They are installed in the aircraft. If they - then they are installed in the aircraft. Then we need to see then documents that proves then that they were installed in the aircraft. If then they were not installed in the aircraft maybe they were sent for repairs.

Then they need to show us documents then to say no, no, no. This engine serial number so and so has been sent maybe to Rolls Royce or wherever it - it was sent. So that it can be - for repairs. So that it can come back. So that is the reason why I mentioned that Chair to say we did not just go to the warehouse and when we checked the warehouse we did not see the - the major spare parts and then we
20 made a conclusion. We probed further in terms of what - what might have happened.

CHAIRPERSON: Thank you.

MR SOKOMBELA: Ja. Chair, I wanted to highlight also on - on the same category. One other aspect that we saw that was a challenge on assets was the issue of the - the - SAA has been making losses. You

know. Meaning that the assets then that they had did not have an ability to generate economic benefits. You know. So then - to us then that proved that as - is an indicator then that the assets might have been impaired.

Then there is an - an accounting standard then that requires then the preparers then of financial statements to test whether the assets have been impaired or not and we could find then that evidence then that Management have - have done that - have tested those assets for impairment and that - that was one of the limitations then that - that we had.

However I think for the aircrafts. They - at least they managed to - especially the owned aircrafts. They managed to - we managed - they managed to do something, because there are values I think that are published by a - a certain company. I just forgot the name of the company now. That will have resalable values of the aircrafts. So we could at least determine in terms of then what are the values of those aircrafts.

Then when we compare the values of those aircrafts with the value - with the carrying amounts as - as per the balance sheet. We are satisfied then that the aircrafts are not - are not impaired. Though the owned aircrafts are not impaired. However for the other equipment like your major spare parts, because they are also subject to (indistinct) your major spare parts. Other - other equipment for example like simulators and stuff.

We could not find evidence whether then they are impaired or

not. So - *ja*. So those were the - those were the major - those were the major findings as far as the - as the assets are concerned. Also - also one other qualification area was on maintenance costs, because what - what we realised is that maintenance costs there were - there were challenges there ranging there from SAA recognising the expenditure when they - when they make payment as opposed to recognising expenditure when they incur it.

For an example when they receive invoices. They will keep the invoices and not record them in the books and then when they are
 10 making payments. It is by then that they will - they will record in the books and in terms of the International Financial Reporting Standards which is an accrual accounting framework. That is not allowed.

So they could not - they could not - they. So that was an issue. One other issue is that there is another major maintenance - you know. In the airline industry there is - there is certain maintenance - there are certain maintenances that the airlines need to make. One is called the C check maintenance. The C check maintenance is done maybe every two years over one to two years and then there is a - a big maintenance.

20 It is basically like an overhaul of the aircraft, I think it's done every four years. So SAA then didn't have a policy in terms of how then they need to deal - especially specifically with the C checks. So the way then that SAA, for example they would pay - they had a contract for those C checks that was called, I think the Power by the Hour contract where then they would make payments, maybe to South

African Airways Technical and then South African Airways Technical then sometime in future will then perform then the C checks or they will get a supplier maybe to perform then those C checks on their behalf but how SAA was recognising these checks was that, when they're making the payment they will recognise it as an expenditure even though it's a prepayment. Meaning that it's not supposed to be recognised in profit and loss it's supposed to be recognised as a prepayment in the balance sheet. So those were part of the challenges that we had in the maintenance expenditure at SAA.

10 Then there was also a qualification at a subsidiary of SAA which is South African Airways Technical because the controls there of inventory were very weak and South African Airways Technical buys a lot of stock in the form of components also for the aircrafts because they are a MRO so they need to have parts that they will use then to service its clients, specifically SAA and other airlines. So then they will have then those components, your tyres, your thrust reversals among others in terms of then what those parts are but the challenge that we had there is that the controls were very poor there. The standard – what the standard requires then that the inventory or stock
20 needs to be recognised – needs to be measured in the books in the law of cost or net realisable value.

What that means is that if you buy the stock, let's say beginning of the year, you buy it for R100 maybe by 31st of December the value in the market of that stock might have been obsolete because maybe the new product has come, now it's no longer R100 maybe it's

R50. So the standard then requires you to write it down to R50 but what we didn't find there at South African Airways Technical is how then SAA Technical complies with that important requirement of the standard and that then made us then to qualify them and also they had a challenge also on the inventory system that they were using because there was a system they were using called Menace system and that system – I remember from 31st – by 31st of March 2017 they discontinued that system and then they procured another system that was called Amos system and we were concerned about that because
10 the credibility of the data that was on that system also was not reliable and they took the information from the Menace – it's like garbage in, garbage out kind of. You know they took this data then from this Menace system to the Amos system and we – there was no proper procedures that were done there like your data migration and stuff. So we ended up then qualifying the inventory but the qualification then that from the subsidiary which is South African Airways Technical. When we evaluated it at consolidated level we found that this is material for our own circumstances and hence then you'll see it is a qualification in the audit report of South African Airways.

20 I think Chair, we've transversed a lot about irregular expenditure I'm not going to spend a lot of time there but it was a matter of, we qualified them on irregular expenditure as well as fruitless and wasteful expenditure. We – there was a qualification that we had there.

ADV MICHAEL MBIKIWA: Thank you.

CHAIRPERSON: Yes, maybe you go first Mr Mbikiwa, maybe you are going to ask what I wanted to ask.

ADV MICHAEL MBIKIWA: Well Chair I was going to ask about the conclusion of the audit, so if your question is on the substance that he's just discussed then perhaps...[intervenes].

CHAIRPERSON: No ask him, we can always come back to it.

ADV MICHAEL MBIKIWA: Mr Sokombela you indicated earlier that there was a delay in concluding the audit and that it was only concluded in December when the financial year had ended in March.

10 Can you give us an indication of what an auditor does when there is a delay and events occur in the intervening period, do you re-visit things, do you include them somehow, what does an auditor do?

MR SOKOMBELA: Chair it depends on the nature of those events in terms of what those events are, but there's a concept of subsequent events that, that concept is covered by the accounting standards and also by the auditing standards as well. For the accounting standards it's for the preparers of the financial statements to keep – to be on the lookout in terms of what are the events that – what are the material events that might require them, as management to – either to disclose
20 them in the financial statements or to adjust the financial statements. I think it's called – those events may qualify can be adjusting events or non-adjusting events. The adjusting events for an example if I can make an example is SAA – I think at SAA ja, I can make an example at SAA because SAA, the issue – remember there was the Competition Commission there was a case of the Competition Commission and if I

remember well, the judgment came subsequent to the year end in 2017, I'm going down memory lane now but – and it said SAA needs to pay I think British Airways or ComAir I think an amount, I think it was approximately R1billion or so.

SAA had to go back and adjust the financial statements and reflect that liability even though it was – I think they were reflecting it as a contingent liability before, meaning that it was not in the face of the financial statements. So they had to go back and adjust it because it was an event that was – before year end it was there, everybody
10 knew about it but then it was confirmed now after year end, so they had to go back and adjust it but then there are other events, for example that may be non-adjusting events. Non-adjusting events are those event, for example that there was no indication that they were going okay before year end but they okayed before year end. Then the requirement is still for them to disclose them in the financial statement to say there's this material event that has happened but we are not going to adjust our financial statements with it.

On the auditing side, also there's an auditing standard that regulates how then auditors needs to audit those subsequent events
20 which includes, among others, auditors having to look at the minutes of the Board of Directors, scan the environment in terms of what is happening in the environment, what are major transactions that are happening within the entity, engaging with people that are responsible for – in the entity to identify, you know, that are on the lookout for those events among others. So that is the principle, you know, in terms

of then the subsequent events because as an auditor you don't want to face a situation whereby you sign the audit report but there are major events that has happened between the date of the issue of the financial statement – the date that the financial statements were issued to you and the date that you signed the audit report. So that is, in principle, that is the concept.

ADV MICHAEL MBIKIWA: Thank you, Mr Sokombela before we proceed to the concluding part of your evidence I want to return to something you spoke about earlier. You mentioned that you'd had
10 engagements with the previous auditors during the course of your audit and that they had discussed their approach with you, in particular to compliance with legislation. Can you tell us about those engagements?

MR SOKOMBELA: Chair we had various engagement with the previous auditors and myself – I took it upon myself to ensure that I engage them as much as I can, myself and my team and – especially on the findings that we're getting it as a, you know – and also the limitations that we found in the audit files and to ensure then that at least we get an understanding of what the issues are but what my team has realised while reviewing the audit file was that there was not much
20 work that was done on the compliance and Supply Chain Management area and I think – there was a meeting that we had, if I remember well somewhere in September where we met...[intervenes].

CHAIRPERSON: September 2017?

MR SOKOMBELA: Yes Chair, September 2017 where we met the previous auditors and I think I wrote them an email in terms of those

deliberations that we had and also where, you know, all agreed that the work that was done on Supply Chain Management area was not adequate.

CHAIRPERSON: Was this now the second area where they conceded that, either they didn't do the work or the work they did was not adequate or is it the same that we talked about before lunch, same area?

MR SOKOMBELA: It is the same area Chair because I think, to us, when we arrived at SAA we did a deep dive on Supply Chain
10 Management but it was important to us because there's a disclosure in the financial statements of irregular expenditure. It's important then to us, before we go and select say big tenders at SAA, to understand whether maybe those big tenders whether they've been tested before or they were not tested before, you know, so that's why then when my team then looked in terms of then that work it was not commiserate in terms of how we would test our work and then we agreed then that ourselves we will then not rely on that work that was done.

CHAIRPERSON: Was it that bad?

MR SOKOMBELA: I don't want to say it was bad Chair, I don't want to
20 say it was bad.

CHAIRPERSON: Okay but you found that you could not safely rely on it.

MR SOKOMBELA: Absolutely Chair.

CHAIRPERSON: Ja okay.

ADV MICHAEL MBIKIWA: Mr Sokombela who was at that meeting?

MR SOKOMBELA: I think Mr Motibe and Ms Massasa if I remember well, if I remember well because – I will have to go back to my notes and also their teams, I don't remember, specifically their names, you know in terms of then who their teams are. I think those were the people who I think were in that meeting and ja we've met with them in various instances even before we signed the report we requested to have an engagement with them but unfortunately I think Mr Motibe had an engagement in Namibia in December and we ended up meeting, I think, on the 15th of January 2018 but in that meeting we didn't talk
10 about Supply Chain Management because it was a matter that we discussed previously – the previous year but what we talked about in the meeting on the 15th of January 2018 were then the qualification areas, especially in the previous years that have got an impact on the previous years' balances. So that was – I think that was the last meeting that we had with both Mr Motibe as well as Ms Massasa.

ADV MICHAEL MBIKIWA: And you mentioned that an email was sent after the 2017 meeting, at which compliance with legislation was discussed.

MR SOKOMBELA: Ja there is an email – there's various
20 correspondences that I sent to them, you know, because what I normally do is that when I meet a person then I write an email to say this is what we discussed just to confirm what we discussed.

CHAIRPERSON: I see you do what attorneys do. [laughter], attorneys are well known for that.

MR SOKOMBELA: Absolutely.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela I don't think you've included that correspondence with your affidavit here and we'd certainly appreciate it if you could have a look for that and provide it to us.

MR SOKOMBELA: I'll certainly provide that.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela the concluding aspect is the engagements that you had with SAA during the course of the audit. We touched on that in the context of irregular expenditure and fruitless and wasteful expenditure and in the Swiss Port context
10 and I don't think it's necessary for you to go through all the correspondence. In general terms, can you tell us, what the attitude was of SAA Management during the course of the audit and to your findings and qualifications that you would report to them?

MR SOKOMBELA: Chair I must say we didn't experience push-backs at SAA and the reason why I'm saying that is because SAA...[intervenes].

CHAIRPERSON: Except when you made findings, initially, you said there was a push-back from Management.

MR SOKOMBELA: Chair I think, not significant, you know, to the
20 extent of a very hectic one no I would be lying if I said that and the reason for that, if you look at the balance sheet of SAA it's not a healthy balance sheet. The Board and Management, what they were busy with was to ensure then that they engage the lenders on a regular basis with the view to ensure then that they negotiate, it's either extension of their loans or get maybe new funding and in the ground

then, things then suffered in the ground. You know in the sense that they didn't have an appreciation then of what is really happening in the ground.

CHAIRPERSON: I think that takes us back to what I said earlier on, doesn't it, when I said, how can you hope to solve a problem if you don't want to see the full extent of the problem.

MR SOKOMBELA: Chair, yes.

CHAIRPERSON: Yes so in the ground matters were neglected.

MR SOKOMBELA: Ja you know that was our assessment because now
10 because the Chief Financial Officer – the CEO the members of the Board, it's a crisis mode every day you know, it's a crisis, people are in a crisis mode everyday, they are meeting the lenders they're meeting the other stakeholder and in as much as SAA is an airline it can't work on autopilot.

CHAIRPERSON: But it's got to be crisis mode all the time if you don't take time to go and see the full depth of the problem because if you take time to go and look at the full extent of the problem then you'll be able to then say, what is the long-term solution and deal with it but if you don't do that, you just want to address what's on the surface that's
20 what's going to happen.

MR SOKOMBELA: Absolutely Chair and I must state that the instability as well played a very, very huge role because if a new person comes and then goes another person comes and then goes, you know, then it becomes a vicious cycle, you know, then unconsciously things then gets neglected, you know and things then they don't work

and that's why you'll see in our insights that we've elevated the issue of instability at SAA especially at the Board level as well as the Executive Management team because you've got to have certainty in terms of the people that are there so that they can have an appreciation of things you know. So my answer Chair to the engagements, we had engagements, very robust engagements with the Audit Committee, members of the Audit Committee, we had I think...[intervenes].

CHAIRPERSON: Did that include Ms Kwinana, was she not in the
10 Audit Committee or maybe that was not the year?

MR SOKOMBELA: That was not the year Chair.

CHAIRPERSON: Okay.

MR SOKOMBELA: Ja we had engagements with the Audit Committee, the Chairperson of the Audit Committee, the Executive Management team, the then CFO, the then Acting CEO, the new CEO then the – the new CEO at the time, I think Mr Jarana joined, I think, 1st of November 2017, we engaged with him before we signed the report on a regular basis. We engaged with Ms Myeni as well, I think we had some – I think two formal engagements with her and in all those engagements
20 there were no push-backs even – they were even making commitments but unfortunately those commitments were not honoured you know. So I think that is what, on our side, as an audit office we were quite disappointed with you know because we did raise some issues we thought then some action – at least in the following year you know. In as much as I was not involved in the following year but my colleagues

that got involved in the following year audit also, they told me that those commitments that were made were not honoured.

CHAIRPERSON: Well what I wanted to ask you earlier on was, when I listen to how – what you found when you were auditing SAA, the challenge is, you found difficulties in getting documents and difficulties in being shown proof that certain parts of aircrafts existed there. I get the impression that, really, SAA was in disarray, is that a fair comment?

MR SOKOMBELA: It would be a fair comment Chair because I think things were not looking good at all.

10 **CHAIRPERSON:** Yes.

ADV MICHAEL MBIKIWA: Thank you. Mr Sokombela the Management report that were in earlier included a range of recommendations as to what Management ought to do, do you have a sense of the extent to which those recommendations were followed, complied with, actioned?

MR SOKOMBELA: Chair as I said, initially, after the audit report – after the signing of the audit report in 2017 I was not involved anymore but I did seek inputs from my colleagues that were involved where then they mentioned to me that the commitments that were made were not
20 honoured, you know, which is a disappointment, you know where I'm sitting.

ADV MICHAEL MBIKIWA: Chair that concludes my questions for Mr Sokombela.

CHAIRPERSON: Thank you very much Mr Sokombela for coming to give your evidence we appreciate it. Should we need you to come back

we'll ask you to come back but thank you very much and you are excused.

MR SOKOMBELA: Thank you very much Chair.

CHAIRPERSON: Thank you.

ADV MICHAEL MBIKIWA: Chair I will hand over to Ms Hofmeyr.

CHAIRPERSON: Thank you and I guess the first thing she will do is give me an assessment.

ADV KATE HOFMEYR: Yes, which will, in all likelihood be entirely unreliable. Chair we have discussed with our learned friends who
10 represent Mr Motibi. Our general sense is that I will not be able to make very much progress if we start this afternoon, there's a day's worth of evidence required in relation to Mr Motibi and I don't see great advantage in proceeding for the better part of an hour. So it was going to be our recommendation that we rather do adjourn now, we find another day and we ensure that we can begin and complete the evidence in that day.

CHAIRPERSON: Okay, no I think that's fine, I think that's fine. You will look at another day soon.

ADV KATE HOFMEYR: We will, we seem to have a few creeping
20 witnesses who need to be allocated into the timetable, I mean that in no negative sense, I just mean that we have lost the time but we will certainly come back to you with a proposal shortly.

CHAIRPERSON: Ja if at all possible, ja if at all possible the time lapse shouldn't be much.

ADV KATE HOFMEYR: Shouldn't be great, absolutely Chair.

CHAIRPERSON: Ja okay no that's alright then we'll do that, so we'll adjourn now. There won't be a sitting on Monday but on Tuesday we will have a sitting and the rest of next week. We adjourn.

REGISTRAR: All rise.

INQUIRY ADJOURNS TO 25 FEBRUARY 2020