INSTANCES OF DEARTH IN CORPORATE GOVERNANCE IN SOME KEY SOUTH AFRICAN INSTITUTIONS: OUTRIGHT CORRUPTION OR INEFFICIENCY AND INCOMPETENCY?

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Abstract: This manuscript attempts to find out whether the dearth in corporate governance in some of South Africa’s key economic institutions as evidenced by corporate failure and SOEs perennial financial bailouts by the government is a result of corruption or incompetency and inefficiency or all three. Key strategic economic entities were examined using qualitative research methodology and data were collected from various publications. Literature was reviewed from journals, website pages, newspapers and magazines. Personal interviews were confined to telephone calls due to the covid-19 pandemic. Four institutions were studied. These represent a small fraction of South African economic entities. There is therefore, the possibility that if more entities were brought on board, different findings might have emerged. The study noted that in two of institutions studied, executive board members where at the centre of perpetrating acts of corruption. In one of the other two, non-executive board members were paid to remain silent. In one institution, senior management took advantage of an incompetent and inefficient board and perpetrated acts of corruption. In the fourth the study noted that a very powerful and wayward board chairperson, with no knowledge of that particular industry and strongly politically connected, perpetrated acts of corruption.

Keywords: Corporate Governance; Corruption; Inefficiency and Incompetency;

1. The problem and its setting

South Africa is experiencing its fair share of corporate governance related issues. The effects that include widening of the rich-poor gap, poor service delivery and deteriorating living standards hit hard on ordinary citizens. The citizens usually react by pointing their fingers at the ANC. The ANC is the only Political Party that has constituted the government since 1994 when democracy was founded in that country. Often, the Party is accused of practicing corrupt tendencies and defending its own. Of late, the sitting President Cyril Ramaphosa, came out guns blazing accusing his own of corruption and, demanding all members to shun corrupt tendencies by assisting in bringing those involved to account for their acts. This article seeks to find out if the dearth in corporate governance in key institutions currently bleeding the South African economy can be attributed to corruption or outright incompetency and inefficiency or all the three.

1.1 Corporate Governance

Corporate governance is a set of mechanisms used to manage the relationships (and conflicting interests) among stakeholders and to determine and control the strategic direction and performance of organisations (aligning strategic direction with company values) Ireland, et al, (2011)It is also defined as a relationship among stakeholders that is used to determine and control the direction and performance of an enterprise. It continues to receive attention because mechanisms in place sometimes, fail to keep executive management in line. The construct evolved when entities began to outgrow their founders and allowed them to grow beyond the limitation of their owners necessitating the following measures:

- Owner-founders, in most cases lacked the necessary skills to cope with enterprise growth hence the need to recruit from outside the family to get the required managerial skills.
- As the entities grew, more capital was required and such requirement forced owner-founder to surrender part of control.
Poor corporate governance is costly as evidenced by the following three cases:

- In November 2012 UBS was fined GBP29.7 million for failures in its systems and controls that allowed former employee Kweku Adoboli to conduct Britain’s biggest bank fraud.
- In December 2012, HSBC agreed to pay a whopping $1.2 billion to settle charges when the banking giant violated US sanctions by transferring billions of dollars for prohibited nations. It enabled Mexican drug cartels to launder tainted money through the American financial system, and it worked closely with Saudi Arabian banks linked to terrorist organisations.
- In 2012 Barclays was fined GBP290 million for manipulating key interest rates.

Corporate governance can be seen as an off-spring of agency theory and managerial opportunism. Agency theory states that agency problems exist when managers (directors included) take actions that are in their own best interests rather than those of shareholders/owners. On the other hand, managerial opportunism refers to managers seeking self-interest through cunning or deceit. Corporate governance brings with it checks and balances that minimise instances where directors and managers resort to acts that favour their best interests instead of the owners’ best interests. Corporate governance calls for fairness, accountability, responsibility and transparency (fair). It takes into account the fact that directors are agency of owners/shareholders and the law of agency detects that they are in a fiduciary position, should avoid conflict of interests, never make secret profits and must act in the best interest of the shareholders. Corporate governance is premised on sound ethical values and has made headlines where organisations have failed to act normally.

Governance of corporates in most cases is regulated by both statute and codes of principles and practices. IN South Africa, statutory regulations dealing with corporate governance of institutions that are part of this study are found in the Companies Act (Chapter 71) 2008 Part F of Chapter 2 (Sections 57 to 78). On the other hand, King reports I, II; III; and IV have played a very important role in enhancing corporate governance. Sections 57 to 78 stipulate the minimum amount of transparency to be displayed in running the affairs of corporates and go into detail as to how meetings of shareholders, resolutions of shareholders, constitution and powers of the board of directors, board meetings and resolutions and the restricted application of governance provisions to certain companies.

The Companies Act (2008) Chapter 71 regulates all types of companies and State-Owned Enterprises (SOEs). Corporate governance related major highlights from Sections 57 to 78

- Company directors have express authority to enter into an agreement on behalf of the company. (Section 66 (1)); (Tuckers Land & Development Corporation (Pty) v Perpeliff)
- Company MOI may provide for direct appointment or removal of one or more directors by any person who is named in, or determined in terms of the MOI. Such person may be an independent third party or a bank. 9Section 66 (4)(a)
- The MOI of a profit company other than that of a State-owned company must provide for the election by shareholders of at least 50% of the directors and 50% of the alternate directors. (Section 66 (4)(b).
- A director may be removed by an ordinary resolution adopted at a shareholders’ meeting by persons entitled to exercise voting rights in an election of that director provided:
  - The director concerned is given notice of the meeting and resolution to that effect and such notice must be equivalent to that a shareholder is entitled to receive.
  - The director must be afforded reasonable opportunity to make presentations in person or through a representative before the resolution is put to vote.
- Directors have the duty to avoid conflict of interests. Such conflict of interest may arise when a director makes personal use of information, property or opportunities belonging to the company or where duties to declare interests in a transaction are set out when a director enters into a contract with his company. This applies whether or not the company could have taken advantage of the property, information or opportunity making the common law dispensation applicable. (Section 75)
The Companies Act 2008 places directors’ duties on statutory basis while not doing away with common law principles. Directors’ duties are enforceable in the same way as any other fiduciary duty owed to the company by its directors and remedies available may include:
- Damages or compensation where the company has suffered loss
- Restoration of company property
- An account of profit made by the directors
- Rescission of the contract where directors failed to disclose their interest (Section 76 (2))

Company directors may be held liable in accordance with principles of common law relating to breach of fiduciary duty for any loss or damages suffered by the company as a consequence of a breach by the director of duties stated in sections 75; 76 (2) and (3) (Section 77)

It should be noted that the current global corporate governance structures are relatively uniform, tend to move closer to the United State corporate governance model and although happening at a slow pace, this emerging US practice is being implemented even in transitional economies.

Governance issues have generally enjoyed a lot of coverage in the media. Executive perks corruption and other unethical practices offer attractive selling material to the reading public that find enjoyment in such material. Risks companies are likely to face are also gaining media attention. In the US, 10-K submissions to the Security and Exchange Commission have to lead with details of risks companies face. Such reports are highly revealing and provide much fodder for the analyst and, one would presume, the business journalist too. Considering the frequency of corporate failures and write-downs, business news consumers expect to see closer scrutiny of company risk in the media, especially in the period following the annual reporting cycle.

The following are some of the issues not getting the necessary media coverage they deserve:
- Incidents of directors who sit on many boards that their ability to add value must be questioned
- Qualification and experience of directors and hence their ability to add value or the number of committee meetings not attended.
- Decisions around allocation of capital
- Fraud prevention as a result of whistle-blowing
- Directors moving on due to conflicts of interests
- Directors opting not to take their optimum dues.

1.2 Corruption

Introduction

Corruption commits the diabolical act of increasing poverty by reducing income earning potential for the poor and the unconnected implying that it retards economic growth.

The International Monetary Fund working paper (1998) asserts that corruption reduces public revenue and increases public spending thus creating unsustainable fiscal deficits making it difficult for the government to run a sound fiscal policy. Corruption increases inequalities by allowing well positioned individuals to take advantage of government activities at a cost to the rest of the population. Corruption promotes government inefficiencies thus rendering it incapable to perform its regulatory role on banks, hospitals, food distribution, transportation activities, financial markets, education, health and everything else resulting in it losing part or all of its raison dieter.

Government can equally fuel these shortcomings if any form of intervention is motivated by corruption. Scholars argue that acts of corruption are linked to the increase of government activities. Following this argument, corruption can be reduced if the government can critique and modify the way it carries out its activities.
Struggling small enterprises are often bullied into paying both legal and illegal substantial sums of money by various stakeholders yet these are supposed to be the engine for growth. In developing countries if these fail to grow, unemployment rises.

What is corruption

Corruption in a complex phenomenon never to be explained by a single cause thus making it difficult to find a solution to eradicate it. The fight against it ought to be pursued from various fronts and the fight takes time and other resources to win.

The phenomenon referred to as corruption began to attract serious attention as late as the 1990s although the phenomenon has been with us for quite some time. More than two thousand years ago, Kautilya, the prime minister of an Indian king, had already written a book Arthashastra, discussing corruption. In 300BC he stated that “just as it is impossible not to taste the honey or poison that finds itself on the tip of the tongue, so it is impossible for a government servant not to eat up, at least, a bit of the king’s revenue...” cited by Brown (1959). It was further noted that Seven centuries ago, Dante placed bribers in the deepest parts of Hell showing how corruption was viewed in distaste during the medieval period. The Asian Pacific Development Journal argues that bribes can be used to provide incentives to regulatory authorities to refrain from taking action and to look the other way while private parties engage in activities that are in violation of the time-tested ethics, existing laws, regulations and rules. Bribes go to the extent of influencing outcomes of court cases. Legendary play writer William Shakespeare gave corruption a prominent role in some of his writings. The American constitution made bribery one of the two explicitly-mentioned crimes which could lead to the impeachment of the US president. The International Monetary Fund working paper (1998). Cantor (1995) argues that the reason why Jews were vilified during the periods 1880-1914 and the 1920s and 1930s was that, they were perceived to be corrupt, devious and anti-social schemers in the highest levels of finance, commerce and industry. They were condemned for fraud, fiscal manipulation and social parasitism in capitalist, fascist and communist settings. He strengthens his observation by giving examples: Jewish financiers were involved in a series of nasty scandals in France in the 1880s and again in the 1920s and in England in the first decade of the twentieth century. The Shylock image was used; Jews had intelligence but they lacked character. There was enough empirical truth in these negative, overblown and over generalized images to give them persuasive force. Every student of history is well aware of what happened to the Jews especially during years 1096, 1492, and 1648 and in the 1940s in Nazi Germany and countries under its control during the Second World War.

Corruption is hard to define because it does not happen during daylight. It exists in different forms like graft, bribery, theft, conflict of interest, nepotism, bias or favouritism. Its frequency is pervasive, occasional or intermittent and in most cases, its perpetrators are contractors, public official, political elites and foreign suppliers World Bank (1992). There is now general consensus that corruption is unqualifiedly bad. Corrupt tendencies usually entail a private individual or organisation to bribe a public official in return or a benefit Bara (n.d) She further argues that bribes are tools of corruption used to buy things or commitments and increases private wealth of individuals concerned who accept bribes and in return, “supply” or ‘do actions’ as per the interests of those who bribed them. These illicit payments can also go in reverse direction from public officials to private individuals or firms to benefit themselves or their political parties Ackerman (2006)

International Monetary Fund working paper (1998) and Smith (2007) state that the most popular and simple definition of corruption is that it is the abuse of public power for private benefit. Asia-Pacific Development Journal goes on to add that it is the use of an official position, rank or status by an office bearer for his own personal benefit. Theo bald, (1990) cited in the working paper of International Monetary Fund (1998) defines corruption as intentional noncompliance with arm’s length relationship aimed at deriving some advantage from this behaviour for oneself or other related individuals. Tummala (2008) further argues that corruption is misuse of power for personal gain and many people are prone to the temptation of misuse of power hence it occurs in all countries in different forms. Carl J Friedrich cited by Tummala (2008) contends that corruption is a kind of behaviour which deviates from the norm prevalent or believed to prevail in a given context. It is a motivation, namely that of private gain at public expense. Such private gain may be monetary, and in the minds of the general public it usually is, but it may take other forms. Ackerman (2007) cited by Bara (n.d) states that corruption occurs where private wealth and public power overlap, which implies the overlapping of the rich elite power with bureaucratic political power. It leads to the illicit and illegal practice and readiness to pay for any work or decision
to be done. Thus, it is abuse of money and power.

The Asian-Pacific Development Journal Vol. 7 No. 2 (2000) has quantified levels of corruption. The journal argues that although corruption occurs at different levels, attention has been directed towards only two, namely high and low levels which tend to complement each other.

- **High level** corruption refers to misconduct at high level by leading politicians, business owners and senior managers. Their corruption is driven by greed since their corrupt tendencies are not driven by low salaries, desperation or necessity. Remaining in office is another overriding motivating factor. This factor is associated with corruption related to campaign financing. This has a multi-faceted effect affecting politicians, administrators of SOEs, company owners and directors and the ordinary person who should be seen to be benefiting from her/his vote for a particular politician.

- **Low level** corruption refers to, for instance, an underhand payment to a clerk to expedite an “urgent” issue. A good example would be that of issuing a driver’s licence posing its own set of regulatory problems. Civil servants earning insufficient salaries to meet their living expenses for their families are driven by necessity to engage in corrupt practices. Raising their salaries sounds reasonable as it means equates to less need to resort to illegal activities to earn a living while reducing the chances of being caught and sent to prison. The strategy has proven effective in countries like Sweden where civil servant earning twelve to fifteen times more than workers from other sectors. Nevertheless, no evidence has been availed proving that low public servants are less corrupt than their superiors.

Mauro (1998) classifies corruption as well-organise or chaotic.

- **Under systematic corruption** executives have a good idea of whom they will bride and how much to pay. The probability of getting favours for which the payment is made is high. It takes out most of the hassles, complexities and uncertainties associated with corruption, thus incentivising the perpetrators to pursue acts of corruption. Under such a system, bribe receivers take a long-term view and think of cuts they can take from profitable deals and a continual stream of income that can be realised if entrepreneurs and business persons they have been associated with will prosper with the passage of time. They are therefore motivated to protect the goose that lays the golden egg.

- **In contrast, chaotic corruption** is associated with confusion and no one is sure as to who to and how much to pay. Demanders of corrupt activities end up paying bribes to many not knowing whether no one else will come in demanding some more. With no coordination among bribe consumers, outcome of the payment of bribes and the favours sought become uncertain. In an environment of uncertainty, the goose is disorientated to lay more golden eggs.

Empirical studies point to many factors contributing to the attention that the phenomenon called corruption is currently getting. In South Africa the attention can be attributed to the ushering in of a democratic government coupled with a free and active media which has browbeaten in, an environment conducive to openly discussing corruption. Other factors include globalisation, role played by nongovernmental organisations greater reliance on the market in making economic decision. Greater reliance on the market in economic decisions has created an environment in which the pursuit of efficiency has acquired greater importance and where distortions attributed to corruption attract more attention. International Monetary Fund working paper (1998). Increase in corruption is also playing an important role in bringing corruption to attention.

At the global level, activities carried out by the press and public prosecutors in the leading industrialised countries to investigate and expose corruption have created greater public awareness of the problem and has led to the adoption of remedial measures. Asian-Pacific Development Journal (2000), Transparency International, a watch dog on international corruption is playing a significant role in exposing acts of corruption.

The Asia-Pacific Development Journal (2000) attributes rise in attention now being given to corruption to the following three factors:
A consensus has now been reached that corruption has become omnipresent. It exists in all countries both developed and developing, in the public and private sectors as well as in non-profit and charitable organisations.

Allegations and charges of corruption now play an important role in politics than at any other time. Governments have fallen, careers of world-renowned public figures ruined and the reputation of well-respected institutions and business badly tarnished on account of it. The international mass media feeds on it together with scandals and improper conduct especially of those in high places are looked upon as newsworthy as well as being worth investigating with zeal and vigour. The rising trend in the use of corruption as a tool to discredit political opponents, the media's pre-occupation with it as a highly marketable commodity and the general public's fascination with seeing prominent personalities in embarrassing situations have brought scandalous and corrupt behaviour, a common human frailty, into the limelight of international attention.

Corruption can be a major obstacle in the process of economic development and in the modernisation of a country and many now believe that corruption must be nipped in the bud when it comes to the country’s development agenda.

At this stage, it is very important to distinguish a bribe which constitutes corruption, from a gift. I am not going to dwell much on this except to state that a bribe implies reciprocity while a gift should not. Though the distinction is fundamental, it is hard to mark.

Acts of corruption can be classified in the following categories:

- Bureaucratic/petty or political
- Cost reducing (to the briber) or benefit enhancing
- Briber initiated or bribee initiated
- Coercive or collusive
- Centralised or de-centralised
- Predictable or arbitrary

Factors that promote corruption

Incidences of corruption vary among societies. It can be rare, widespread or systematic. Where it is rare, it becomes easy to detect, isolate and punish the perpetrator and prevent him/her from becoming a cancer. Where it is widespread, it becomes difficult to contain. The worst form of corruption is systematic. Systematic corruption takes hold of a country, institutions, rules and people’s behaviour and attitudes become addicted to the corrupt way of doing things and corruption becomes a way of life. While very hard to overcome, systematic corruption has a devastating effect on any country’s economy. Asia-Pacific Development Journal, Vol. 7, Issue 2 (2000)

Corruption is closely connected to state activities and Gary Becker the Nobel Laureate once pointed out in his Business Week Columns that if we abolish the State, we abolish corruption. This is however not practically possible. Corruption tends to emerge and increase in any country where inequalities are grave, resources are scares, rules are unclear and vague and punishment is unlikely and upward mobilities restricted World Bank, (1992). The Asia Pacific Journal goes further to argue that rules and regulations are necessary to maintain a sense of fair play; to prevent disastrous conflicts: keep greed, predatory and other unsavoury human instincts in check; minimize socially undesirable consequences; and generally, to ensure that players and referees abide by certain accepted standards of moral conduct and good behaviour. For rules to be effective, they must be transparent so that they are clearly understood by participants in the game. Besides transparency, rules must be applied in an impartial manner with respect to all players, must be consistent and should never be subject to frequent arbitrary changes.

Discretionary powers arise due to the fact that it is impossible to come up with rules and regulations that are watertight and fool proof to take care of contingencies cropping up in attempting to control and direct an economic activity. It therefore becomes necessary to introduce some flexibility and discretionary powers to those reposed with administering in interpreting and implementing the rules and regulations. Those given the
responsibility to interpret and implement the rules and regulations should be made accountable for their actions. The Asian Pacific Development Journal Vol. 7 No. 2 December 2020 citing Klitgaard (200) has come up with a corruption equation stated thus:

\[ C = R + D - A \]

In the above equation, \( C \) stands for corruption, \( R \) for economic Rent, \( D \) for discretionary powers and \( A \) for accountability. It simply states that the more opportunities for economic rent (\( R \)) to exist in a country the large there will be the prevalence of corruption. Similarly, the greater the discretionary powers (\( D \)) granted to administrators the greater will be corruption. However, the more administrators are held accountable (\( A \)), for their actions, the less will be corruption.

Stated differently, the journal goes on to state that a fertile ground for growth of a thoroughly corrupt system emerges in a country if it satisfies the following three conditions:

- It has a large number of laws, rules, regulations and administrative orders restricting business and economic activities thereby creating a number of opportunities to generate economic rent. Economic rent becomes prevalent where laws, rules, regulations and administrative orders are complex, restrictive and opaque and applied in a selective, secretive, inconsistent and non-transparent way.

- Administrators are given unrestricted discretionary powers with regards to the interpretation of rules, given too much room to decide how rules are to be applied, to whom and in what manner they are to be applied, are vested with unlimited powers to amend, alter and rescind the rules and even to supplement the rules by invoking new restrictive administrative measures and procedures.

- There is no effective mechanism and institutional arrangement in the country to hold administrators accountable for their actions.

The International Monetary Fund working paper (1998) indicates that recent studies show that the extent of government role in the economy has grown and has brought about:

- a large increase in the level of taxation
- a large increase in public spending
- and probably though not statistically ascertainable, a large increase of regulations and controls on economic activities on the part of the governments.

The International Monetary Fund working paper (1998) further hypothesises that the impact of high taxes, high level of spending and new regulations is not immediate but rather, a function of time and established norms of behaviour.

The Asia-Pacific Development Journal Vol. 7 No. 2 December 2000 argues that lack of transparency, accountability and consistency, as well as institutional weaknesses such as the legislative and judicial systems provide a fertile ground for growth of rent-seeking activities in such a country.

Privatisation of entities has acerbated acts of corruption. Ministers and high political officials exercise discretion in making basic decisions leaving them at the mercy of their conscience. Compounding the situation are senior managers with inside information which they utilise for their personal benefit. The International Monetary Fund working paper (1998) noted that public or state enterprises have been a major source of political corruption because occasionally they have been used to finance activities of political parties and provide jobs the clienteles of particular political groups clearly evidenced by Italy before tangentopoli and in many Latin American countries. The above observation supports the argument that states that, the phenomenon called corruption is a result of its increase in scope.

Over the years, observers have speculated that there is a positive co-relation between wages paid to civil servants and reduction of instances acts of corruption, Lindbeck (1998) cited by Tanzi (1998) attributes low corruption in
Sweden in the 20th century to the fact that at the turn of the century, high-level administration earned 12-15 times the salary of an average industrial worker. Thus, the higher the wage level the lower the corruption. Corruption can only be minimised and not got rid of because people are naturally greedy.

It can also be argued that expansion and growth of international trade has opened a window of opportunities for payment of bribes (euphemistically referred to as commission) to flourish. Tanzi (1998) observed that large bribes are reported to have been paid to get foreign contracts or to get privileged access to markets or to get particular benefits such as tax incentives. Bribes paid by French companies in 1994 alone amounted to FF10 billion as reported by *Le Monde* of 17 March 1995. World Business of 04 March 1996 reported that Germany companies pay in excess of USD3 billion in bribes each year. Payment of bribes has a geometric effect since many will follow suit. Kantor argues that the cost of not paying a bribe is complete loss of the contract. To those who consider time to be most valuable, they would rather pay a bribe to jump the que thereby getting favourable decisions in a very short space of time. Asia-Pacific Development Journal (2000) this type of corruption as time saving and avoidance of stipulated regulations and further argues that bribes can speed up the granting of permission, licenses and permits to carry out activities that are perfectly legal. This is the so-called “grease money” to turn the wheels of bureaucracy more smoothly, speedily and hopefully in the right direction. It is also difficult to think of a really awful situation where rules and regulations and the way they are applied, are so complex and burdensome that the only way to get things done is to pay money to avoid them.

Political corruption is when public or private enterprises are manipulated to fund activities of political parties. These enterprises have become major funders of political party activities instead of utilising such funds for their core activities that include provision of services to citizens, expansion and growth and paying dividends to shareholders.

Weak institutional controls promote opportunities for corrupt activities. Gary Baker’s analysis looks at the probability of catching those involved in corrupt activities bringing in the role of institutional controls. Where controls are strong, the probability of detecting fraud is high and this acts as a deterrent measure. Strong institutional controls comprise honest and motivated workforce, strong auditing procedures and clear policies and procedures. Information should be allowed to flow transparently through its channels and checks and balances must be seen to be in place. Recruitment and promotion must be guided by merit and nothing else. Rauch & Evans (1997) cited by International Monetary working paper (1998) gathered information on the degree to which civil servants’ recruitment and promotion are merit-based in 35 developing countries. Results indicate that the less the recruitment and promotion is based on merit, the higher is the extent of corruption. Tanzi(1998) further argues that absence of politically motivated hiring, patronage and nepotism and clear rules contribute to the quality of institutional controls.

Penalties charged for crime or corrupt actives play an important role in determining the probability of occurrence of crime. This implies that the higher the penalty imposed of acts of corruption the less likely people will venture in acts of corruption other things remaining equal. One can therefore argue that acountry that imposes very high penalties of criminal acts is likely to reduce acts of crime. Looking at this argument from another angle, acts of crime attract very high risk. High risk attracts high returns. Therefore, one can venture into acts of crime if returns are high. This implies that cost of bribes will shoot up.

In real life, implementing stiff penalties can face serious challenges. Due to legal, political and administrative impediments, it may take long to effectively impose these penalties and, in some cases perpetrators of acts of crime often get away with less stiff penalties.

The website [https://tradingeconomics.com/india/corruption-rank](https://tradingeconomics.com/india/corruption-rank) notes the following:

- The causes of corruption relate to political and economic conditions within the society and their linkages to problems in the world economy Theo bold (1990).
- Many political leaders in countries with serious poverty have amassed extraordinary fortunes.
- Foreign exchange reserves have been transferred to foreign bank accounts. Such abuses, needless to say, affect economic growth and development process of a country.
- Corruption destroys public trust.
The University of Stellenbosch Management Review on the fall of Steinhoff, argue that the reason why successful business executives indulge in corrupt activities in financial greed. They go further to argue that such greediness goes beyond money to what money brings. It is thus, less driven by rational cost-benefit calculation but by the symbolic value of power and success. They are driven more by addiction to power and success brought about by money. Citing Long (2008) the review further states that the accumulation of ever-increasing wealth is a source of perversive pride in one's ability to feed the hungry beast of power, status and lavish lifestyle. This is done at the expense of certain realities that may threaten their careers.

Effects of corruption on the government, country's economy and the ordinary person

In both developed and developing economies, large or small-oriented or otherwise, because of accusations of corruption, governments have fallen, prominent politicians, presidents and prime ministers included, have lost their official positions and, in some cases whole political classes have been replaced Johnson (1997) World Development Report (1991) notes that bribery, nepotism and venality can cripple administrations and dilute the ability of any government to provide service thus, undermining social cohesiveness. From an economic and internal controls perception, corruption increases the cost of doing business and bleeds the economy. From the social point of view, it enriches a few; fewer than Pareto's 20% whose 80-20 rule has stood the test of time. In the eyes of law, corruption is a criminal offence. In a survey carried out by Gray & Kaufmann (1998), high ranking public officials from 60 developing countries ranked public sector corruption as the most severe obstacle confronting their development process. Corruption on a grand scale associated with some dictators and their cronies can involve embezzlement of huge sums of public funds, mismanagement, waste inequality and accompanying social decay very disastrous to the economy Asia-Pacific Development Journal (2000). The journal has further observed that fortunes in gold, gems jewellery and hundreds of millions of dollars stashed away in secret hiding places by corrupt officials have worsened the plight of developing countries.

The International Monetary working paper asserts that bribery cushion low wages but unfortunately those who afford to pay high bribes are not the most economically efficient but most successful rent-seekers. Those paying bribes view it as an investment and expect high returns on it thus compounding effects of bribes on the society. Baumol (1990) further argues that in most corrupt societies, the most able individuals will be diverted by existing incentives from pursuing socially productive activities towards rent-seeking activities imposing a high cost of growth to the countries concerned.

The Asia-Pacific Development Journal Volume 7 No. 2 of December 2000 argues that corruption promotes growth of an underground economy, high social costs and adverse consequences on income distribution, consumption patterns, investment, government budget and economic reforms. These will now be looked at in more detail

Rise of underground economy

Corruption gives rise to three types of underground economic activities namely, drug trade a smuggling activities and legal activities not on official records designed in such a way to evade taxes. Once economic activities go underground, official macro-economic data becomes unreliable and scarce to assess the true economic performance, thus making it hard to come up with viable economic plans. Export and import records become unreliable due to illegal and undocumented movement of goods, official exchange rates become symbolic since most foreign currency transactions happen on the parallel market creating rates with no bearing to official exchange rates. Key economic indicators like the rate of inflation, interest rates and the whole monetary system go into disarray. Economic development remains a pie in the sky in the absence of reliable data, transparent policies and proper macro-economic management.

Social costs

Violation of laws, rules and regulations that serve social objectives public interest for economic gains cause serious social harm. Payment of bribes in exchange of using unroadworthy results in accidents. Overloaded ferries and passenger ships have sunk in seas and rivers. Shoddy workmanship, use substandard material and disregard for proper design and engineering specifications due to mainly corruption, have caused bridges to collapse and dams to burst attracting huge losses in lives and property.
Income distribution

Where corruption is dominant, it is the connected few who enjoy economic rent which represents and abnormal or monopoly profit. When such happens, wealth becomes concentrated in the hands of very few individuals. Income distribution becomes much skewed in favour or the influential and connected few. The burden falls on the poor who will find it very hard to meet their basic needs. On the other hand, service provision by the government deteriorates.

Consumption patterns

With an unequal wealth distribution, consumption patterns get distorted with the aim of meeting the new life style demands of the extremely rich urban elite. The rich few will afford to import luxury goods from abroad—flashy cars, lavish furniture, state of art consumer durables, jewellery, perfumes, wines and expensive foods. All these are out of the reach on many. Such consumption patterns, evidenced by flashy cars driving in dusty and unmaintained roads, mansions and luxury apartments arising amidst poverty and squalor solidify the fact that affluence is not widely shared in such communities.

Impact on investment

Corruption is harmful to investment especially in developing countries. Brides take centre stage. These may be paid before negotiating to invest in a country. More bribes follow when setting up business. Procurement of leases for land and buildings, permission to engage in trading activities can attract payment of more bribes. Agents who come in as middleman compound problems instead of solving them. Their services do no come cheaply, and instead, add to the cost and complexity of doing business.

Foreign direct investment (FDI) helps augment the much-needed capital resources in poor countries. FDI brings with it technology, knowhow, management and marketing skills that help enhance a country’s global competitiveness and strengthen foreign networks. It also increases employment opportunities, assist in improving labour skills and can produce goods and services for the domestic market. Such will be forthcoming to countries that provide a conducive investment climate for foreign investment. Corruption does not constitute that climate. In actual fact it destroys it.

Effect on the government budget

Corruption negatively impacts on the government budgeting processes. Bribes reduce tax revenue inflows, fees, custom dues and public utility charges. Fraud, embezzlement and misappropriation of public funds compound the problem.

Consequences on the expenditure side are more dire since large benefits are derived from corrupt deals on expenditure items that are expensive, whose costs are not readily apparent and considered to serve some high national priority concern so that they have to be undertaken in a discrete and secretive manner. Large and expensive projects with costs hard to determine but with huge potential kickbacks and economic rent are also good candidates for corrupt deals and are easily included in national budgets. No the other hand, not much can be made in the provision of basics like teachers’ salaries and the buying of school books. No wonder corrupt regimes tend to devote a large share of the national budget expenditure on acquiring sophisticated military hardware and large projects and less on education and health.

1.3 Inefficiency and incompetency

Inefficiency

The section will concentrate of efficiency and competency. Readers may consider the opposite of what is discussed as inefficiency.

Efficiency is key to business success. Where inefficiency prevails, business fails simply because input exceeds output. Simply defined, efficiency is the most effective way of utilising scarce resources Mankiw (2000) It is a state
where maximum amount of goods and maximum amount of benefit can be obtained from available resources Pekovic (2011). Efficiency is a state where the economy is at 100% capacity utilisation or is at the limit of its production capacity.

The Journal of Economic development, Environment and People Volume 7 Issue 1 (2018) see efficiency from three angles:

- Efficiency as output-input that is the relationship between revenue and expenditure and costs and benefits.
- Efficiency as the ratio of actual output to standard or norms.
- Efficiency as a success in fulfilling intended goals.

The journal goes further to point out that there are two types of efficiency in the public sector

- Internal efficiency represents the rational behaviour of the working environment
- External efficiency represents the quality of services and the external actions

The relationship between efficiency and effectiveness becomes of the essence. Effectiveness is the degree to which set objectives are met when results of the expenditure activity are compared with the objectives in relation to the resources needed to achieve the objective Journal of Economic Development, Environment and People (2018) The journal goes further to say that from a public sector perspective, effectiveness means the use of public funds in such a way that ensures the optimum level of achieved objectives. Simply put effectiveness is the difference between plan results of an activity and its actual results. It can thus be argued that despite how efficient a process may be, if the output does not meet the planned objective, then, efficiency loses significance. Thus, efficiency must always be linked to effectiveness.

According to the Journal of Economic Development, Environment and People, factors influencing inefficiencies in the public sector are:

- No conditions for proper competition
- There is no specific owner
- There is no pressure to make a profit
- There is no risk of bankruptcy
- Public sector inputs can be easy to quantify while outputs/benefits are difficulty to quantify
- Inputs are purchased at prevailing market prices while outputs are given free of charge.
- Public sector activities are demanding in terms of professional competence.

There are two types of inefficiencies namely allocation and production inefficiency. Allocation inefficiency arises when an option chosen is incorrect or less effective than its variants and production or technical inefficiency arises when a worse path is chosen to achieve a stated objective. Inefficient, uneconomic and ineffective use of public funds tantamount to violation of financial discipline.

The Journal of Economic Development, Environment and People (2008) goes further to state that efficiency in the public sector depends on its size and structure and, the external factors affecting the size and structure are:

- Political structure of society and the associate public elections and public scrutiny
- The functioning of the market system-taxpayer creates an atmosphere of efficiency through tax generation thus regulating the financing of public services
- The competitive environment within the public sector created by the public administration
- Financing of sectors and organisations of the public sector based on their performance and benefits they provide.

The following are listed as the internal factors
Science and technology
Structure of public activities in the organisation-primary, secondary and management
All forms of labour division-horizontal and vertical
Qualifications of labour force
Workers’ initiative including ethics
Management system as a major factor of efficiency

In the context of South African key enterprises, inefficiency may be attributed to the following factors:

Faulty manpower planning

The problem has further been compounded by the 4th industrial revolution which requires more investment in machinery than in manpower. In most public enterprises, manpower planning is given very little attention as evidenced by the conflict between government and unions. The government wants to reduce the cost of service delivery by reducing its labour force but unions are resisting such moves. Consequently, manpower remains far much excess of actual number requirement resulting in increased and unnecessary cost in service delivery.

Labour problems

As alluded to earlier on, the public sector has been hit by deteriorating industrial relations. There as a lot of mistrust especially on the part of workers as the government intends to retrench. The labour force moral is at all-time low as they face an uncertain future.

Certain big projects take too long to complete when compared to initial plans. The Kendall project comes into mind where the project was supposed to have been finalised a few years ago. Delays increase the input costs putting a burden on the country’s already strained scarce resources.

The delay in the project time schedule and the consequent escalation in costs, can be attributed to poor and inadequate project planning.

Political interference

In most cases, political considerations instead of sound commercial judgments take precedence in planning and implementing projects. Politicians have also been seen interfering with both strategic and tactical issues relating to key state institutions as evidenced by what is coming out of the Zondo Commission. Politicians rarely use sound commercial judgment to make commercial judgments. Mostly is it about their ego, populism and to a certain extent, self-enrichment.

Wrong pricing policy

I stand to be corrected to say there is no sustainable costing system carried out in key enterprises. Costs come out as a historical record and if compared actual, the variance is large proving that there is lack of effectiveness if, effectiveness is measured in terms of the standard against the actual. Commercial viability is compromised because prices are not premised on the principle of profit maximisation. Instead, government(s) control and regulate the pricing structure.

Excessive and faulty controls

Various ministries, in good faith put in a lot controls in form of legislation. Departments of Finance, Labour, Public Enterprises, Energy Industry, to mention just a few, interfere with operations of most key institutions through their various legal instruments. Such create a good breeding space for corruption. As I alluded to earlier on, to most business people, time is of the essence. Paying a bride to avoid going through all stipulated regulations is cheaper than spending time in ‘the que’
Inefficient management

The current goings on at some SA key state-owned entities are a result of managers being recruited on the basis of some special criteria. One of the reasons for corporate governance failure in most public SA entities is managerial lack of efficiency and effectiveness. As such, management of these key entities have failed to define duties and responsibilities of their subordinates. Most of these senior managers are slow in making operational decisions. Bureaucrats are recruited to chair boards. Most of these may not suit the ever-changing and complex business dynamics and VUCA required running modern businesses.

Incompetency

The International Journal of Economic development, Environment and People Volume 1, Issue 7 (2008) in its third view of efficiency mentioned above, rightly classifies competency as a component of efficiency. The dictionary definition of competency as “having the necessary ability, knowledge or skills to do something successfully.” The definition blurs the difference between competency and efficiency and considers competency as a component of efficiency. Nguwi, (2021) notes that one is pronounced competent if one does something successfully and assumes that this something is positive and pre-agreed before a person performs it successfully. Often, qualifications, experience and skills are mistakenly assumed to equal competency. Many employers have, as a result found themselves at the deep end when they later discover that these to not actually amount to competency. Nguwi (2021) notes that research has proven that qualifications, experience and skills contribute 3% to competency.

Many people find themselves in jobs they cannot perform successfully simply because employers are obsessed with qualifications and experience. I will therefore not dwell much on incompetency since it has been reasonably accounted for under efficiency.

Some of South Africa’s key economic entities are making losses and such losses are accumulating over the years putting a huge burden on the fiscus. This, in the long run is not sustainable. Something ought to eventually give in.

2. Research questions

- What is corruption and what are its effects on economic development and the ordinary people particularly in South Africa and developing countries in general?
- What is inefficiency and incompetency and how do they impact on SA enterprises, economy and the ordinary person in particular and other developing countries in general?
- How does each one of them relate to dearth in corporate governance in some key SA institutions?

3. Research methodology

The study analyses corruption, inefficiency and incompetency and then attempts to link corruption and inefficiency and corruption to instances of dearth in corporate governance in some key South African institutions. Four key institutions were selected on the basis of the amount of publicity they attracted and the extent of their contribution to the country’s economy. One is a multinational involved in the manufacturing and retailing of household goods, the other is in the energy sector, another is in the airline industry and the last one is in banking. The selection attempted to ensure that key sectors of the economy are included. Qualitative research methodology was used and data were collected from various documents. The documents involved library-based, desk and archive research. Literature was reviewed from journals, website pages, newspapers and magazines. Choice for research material was based on its creditability and meaning. Due to the Covid-19 pandemic, interviews were confined to telephone calls.
4. Discussion

This section looks at instances of dearth in corporate governance in certain key South African private and public institutions. It then endeavours to ascertain if such is a result of corruption or inefficiency and incompetency and then, draw a conclusion and, subsequently make recommendations.

4.1 Steinhoff International

The Steinhoff saga is a major source of concern. It threatens to wipe hundreds of billions of rands invested on behalf of many people—the rich as well ordinary South Africans. Highly paid layers failed investors. These includes auditors, assets managers and a both executive and non-executive director who in their different roles should have ensured the company’s accounts are as close to reality as possible Rossouw (2018).

The Steinhoff Group was founded in 1963 during the cold war by Bruno Steinhoff a Germany entrepreneur who identified an opportunity in the household goods retail sector. He then started exploiting the opportunity by buying furniture in East Germany at a cheap price and selling it to his well-off countrymen in West Germany. Naude, Hamilton, Ungerer, Malan and de Klerk (2018). By the time of its demise in 2017, Steinhoff International had acquired business interests Australia and New Zealand, European Union, Asia Pacific and Africa. During the process, the group had solidly vertically integrated in the household goods supply chain enjoying some form of monopoly. In its 2016 annual report, Steinhoff advised its stakeholders that the business had metamorphosed from a sourcing and manufacturing entity into a global retail business while keeping its brands local. Steinhoff 2016 Annual Report cited by Naude, et al (2018). The Company grow and subsequently got listed on the London Stock Exchange, JSE and Frankfurt Stock Exchange. On 23 May 2017, its share was valued at R50.25 translating to R240.5 billion market capitalisation. Naude, et al (2018).

It therefore came as a surprise on December 5, 2017, when a dark cloud fell upon the Steinhoff empire after the Chief Executive Officer, Marcus Jooste announced his intention to step down with immediate effect. The board subsequently announced that ‘accounting irregularities’ needing further investigation had been noted. PricewaterhouseCoopers was then asked to assist with the investigation into the occurrence of potential accounting irregularities or potential non-compliance with the laws and regulations impacting on the Steinhoff financial statements. PwC (2019).

As Marcus Jooste fell on his own sword, the company lost 90% of its market value over a very short space of time. Steinhoff share price collapsed by more than 90%, wiping out nearly R150,4 billion in shareholder value in about three days following the resignation of the CEO. Then, news that German prosecutors were investigating the company for alleged massive accounting fraud were circulating.

On a Friday after the collapse, Steinhoff International announced that a ‘small group’ of former Steinhoff executives, in concert with executives of other companies, for years, inflated the profit and assets values of the Steinhoff group. Cronje (2018). This was also observed by PWC. The PWC went on to say that its investigators found a pattern of email communication showing senior management executives instructing a small number of other Steinhoff executives to execute irregular and complex transactions, often with the assistance of a small number of persons not employed by the Steinhoff Group. These transactions, often supported by legal documents and other professional opinions, were created after the fact and then backdated. This happened over a number of years.

In an opinion piece by Fin24 (2018), the editor argues that the reason why Steinhoff International could have collapsed was because of its board structure. In Europe, companies go for the two-tier board structure different from the one-tier structure used in South Africa. While it targets greater accountability and attempts to ensure more checks and balances, the two-tier board structure also runs the risk of executives holding back key information from non-executive board members. The opinion piece further argues that it appeared that Marcus Jooste was well aware of this and exploited this characteristic. It appears, Steinhoff’s board decision to favour a two-tier board structure may have contributed to its undoing. Natural holes in the structure, the biggest one being the fact that the management board does not always keep the supervisory board on the loop, combined with Steinhoff corporate culture anchored on dominant status, appear to have created accountability holes Naude et. al (2018). One may then conclude that the two-tier structure gave the CEO too much leeway to take decisions that,
in the end led to the collapse of the company.

To assess how and why things could have gone that wrong, a look at the backgrounds of key leadership personalities prior to the saga may help unlock the mystery.

### 4.1.1 Backgrounds of key Steinhoff International leaders to the demise

At the helm of Steinhoff was Marcus Jooste the executive director and chief executive officer. Citing Naude et al (2008), opinion that, what was known about Marcus Joost was his inherent extraordinary qualities with a social background that provided the ideal setting for his rise to leadership iced with a particularly strong emotional bond between him and his followers. The three qualities put together mould a charismatic leader. He obtained a B. Acc. Degree from Stellenbosch University in 1982 and subsequently obtained an Honours degree at the University of Cape Town and completed his CA(SA) articles. At the age of 27, Marcus was appointed financial director of a listed company where he later on, met Claas Daun who coached him into his business. In 1998 Marcus convinced Claas to merge his business with that of Bruno Steinhoff in Europe and to list Steinhoff International on JSE. Marcus became the Steinhoff CEO in 2000 and built the company through numerous acquisitions from small furniture manufacturer to a large corporation in the household goods industry.

Two other members of the management board were Ben La Grande, the CFO and Dan van der Merwe, the COO. Ben La Grande was CA (SA) qualified. The JSE-SHN website tells us that Der Merwe joined Steinhoff in early 1998 and was appointed to the Steinhoff International board in 1999. He was appointed Group COO in 2013 and prior to this appointment, he acted as CEO of Steinhoff southern hemisphere operations. He is a former non-executive director of Pepkor and replaced Jooste at the helm of Steinhoff International when Jooste left.

### 4.1.2 Corporate governance

Steinhoff International was listed on the JSE. The listing regulations obliged them to strictly adhere to the Companies Act (71) of 2008 and King IV.

Naude et al (2018) citing the Steinhoff 2013 annual report, the directors had this to say, “Steinhoff board of directors and entire management team, are committed to sound governance and good corporate citizenship. We accept that good corporate governance practices are fundamental to creating, protecting and sustaining shareholders and stakeholders’ value, especially within the current volatile economic environment. Our governance structures are in line with King III and the Companies Act (71) 2008.

Going by what was happen as Steinhoff grew and the findings of PwC, one starts wondering if they really practiced what they intended to. One may even conclude that Steinhoff treated corporate governance as a tick-box compliance system not underpinned by an ethical commitment to respect and abide by ethical rules and regulations.

### 4.1.3 PwC Findings

To bring more clarity to the Steinhoff saga and room for the reader to conclude whether this could have been a result of corruption or inefficiency and incompetency, the author will now highlight some of PwC findings as drawn from the PwC 11-page report. Readers are however advised that during the investigation Marcus Jooste and other directors at the helm of Steinhoff International then, did not make themselves available for interviews. Summarising the findings in one sentence that a layman may understand, one would be not be far off the point to say that over a period of nine years spanning 2009 to 2017, assets and profits were inflated to impress shareholders and other interested stakeholders. Brief details extracted from the 11-page document will now be given below.

- During the years 2009-2017 income amounting to Euro 6 506 596 428 purported to be sales to third parties was realised in the Steinhoff Group financial statements. These third parties later turned out to be either closely related to and/or had strong indications and controls by the Steinhoff Group or certain of its former employees and or related third parties or former management.
• Fictious entries and set-offs were made to cover up non-recoverable accounts receivables arising from fictitious sales. Some were reclassified into different assets classes. Most liquid assets were reclassified as fixed assets as was done to cash and cash equivalents that were reclassified as increase the value of PPE, Trademarks and Goodwill. Such entries painted a picture of settled accounts receivable while the value of fixed assets being inflated.

• Rentals and royalties accruing on ‘revalued’ assets were then increased. Unfortunately, group companies’ renting such assets suffered increases in operational costs and subsequent losses. The losses suffered were in huge contrast to the value of goodwill sitting in the books. At consolidation level, group companies were now making negative contributions.

Going by the qualifications and experience of the three executive directors, it can be safely assumed that three men have above average intelligence supported by strong qualifications and experience. They therefore ought to have had, above average knowledge and skills of what they were supposed to have done as directors. Their acts, as revealed by the PwC, cannot be classified as acts of incompetency. A tick-boxing corporate governance requirement on annual reports was meant to hoodwink the public. Meanwhile, all the malfeasance mentioned above, happened under the watch of KPMG.

4.2 ESKOM

Eskom, a state-owned power utility, is well-known for its perennial losses. It is technically a broken entity saddled with a debt of over R400 billion and is currently surviving on a R128 billion government bailout. The national treasury views Eskom as the single largest threat to the South African economy. Constant breakdown of obsolete equipment and subsequent power outages have worsened the situation. The entity has since been asked by parliament to bring in its financial statements after incurring a loss of R2,3 billion and R19.6 billion in irregular expenditure during the financial year 2017/18.

In 2001, Eskom was awarded the prestigious title ‘Global Power Company for the year ‘at the Financial Times Global Energy Awards in New York. The judges showered praises to its technical executive, maintenance and operations. Then, it provided affordable electricity to its customers. (News24).

The SOE is key to the South African economy and is one of the biggest economic pivots in the country controlling annual procurement budgets that run into over 25 billion rand.

What could have gone wrong over the 20-year period?

A South African energy expert argues that, of the two alternatives that were at Eskom disposal a few years ago, the state-owned entity made a wrong choice. Funds meant for the maintenance of old power plants were diverted to Kusile and Medupi power stations with the hope that once they become fully operational and functioning optimally. The two new and modern power stations with a combined 12 generating units would inject 9 600MW of electricity to the grid. The projects were scheduled to be completed by 2015. As of now only four units are generating power, 3 at Medupi and 1 at Kusile. The minister of Public Enterprises Pravin Gordhan is quoted as having suggested that the strategy to divert maintenance funds to Medupi and Kusile may have been motivated by the fact that acts of corruption are easier to commit on capital projects. (EE Publishing).

According to the Standing Committee on Public Accounts, the projects were initially budgeted at R79 billion for Medupi and R81 billion for Kusile. The projects were delayed resulting in cost overruns of up to 100%. Medupi reached R145 billion while Kusile hit R161 billion. Upon visiting Kusile power station, the committee noted with concern that although the power station was strategically located in an area with vast coal fields and just a stone-throw away from Seriti Resources Coal Mine with which Eskom had entered into an agreement to supply coal, Kusile was bringing coal from distant coal mines. The researcher tried to find the reasons for such costly decision but could not get a reliable answer to put on paper from those the researcher could get hold of.

Scorpio, the Daily Maverick investigation unit launched a court application against the power utility in a bid to access key information regarding the Medupi and Kusile power stations. Pieter-Louis Myburgh of the Daily Maverick (2020) alleges that more than 10 years of rampant corruption and gross mismanagement are the major
reason of the electricity crisis currently facing the country. The power utility hired Bowmans’ attorneys in 2018 to probe alleged rampant corruption at the two power stations. A year later the investigation was stopped. By then, the law firm investigators had uncovered solid evidence of high-level corruption. According to a report prepared by the law firm that was investigating numerous contracts at Eskom, the investigations were suspended by senior members of Eskom management in 2019 just as forensic enquiries into criminality were starting to reveal the full extent of corruption at the state-owned enterprise.

4.2.1 Delays in the construction and commissioning of Medupi and Kusile Power Stations

As alluded to earlier on, the two projects were initially scheduled to be completed by 2015. It is now anticipated that they will be completed in 2023. As of now, the two have provided a study case on how not to implement projects. The delays have resulted in frequent blackouts negatively impacting all sectors of the economy. According to Bloomberg news, the cost of completing the projects is likely to go up to R451 billion including interest charges. Burkhardt & Cohen (2021)

The power utility now concedes that delays in completion are a result of inadequate planning, ineffective contracting strategy, execution and oversight. Contractors performed poorly while strikes and demonstrations worsened the problem. Kgosi, Marnewick & Pretorius (n.d) cite Shivambu and Twala (2014) who found that high failure rate is a result of lack project management skills, experience and competency.

In an attempt to fast-track the project, development and implementation were carried simultaneously. Quoting a former executive, Bloomberg News says that this was a recipe for disaster in terms of any good practice for execution of a major project. It further states that there was a shortage of contractor capacity. At that time, worldwide demand for large scale generation plant was in demand implying that contractors had more bargaining power to impose their own price and conditions. The power utility also made a big mistake by assuming most of the risk by overseeing both construct and procurement. Traditionally, these functions should be a burden of the contractor as is the common practice in plant development. At the same, Eskom engaged its subsidiary Rotek Industries to do major civil works. The subsidiary failed to deliver creating a bottleneck for other contractors who went on to file for damages. The entity claims to have paid R14.8 billion of R252.9 billion worth of claims while on the other hand, it filed its own claims for R2.6 billion against companies that failed to meet their contractual obligations. Meanwhile, equipment manufacturing continued according to plan. The equipment was left sitting in warehouses or on site with the clock ticking on warranties. Tshela, cited by Bloomberg news.

The worst came when boilers manufactured by Mitsubishi Hitachi Powers Systems alleged to be deficient were installed. In reciprocation, Hitachi blamed local contractors for faulty welds on the Medupi boilers.

Senior management turnover was high while politicians continued to interfere. Nevertheless, blame lies with the board for failing to properly assess the projects and its related risks and failing to hold management accountable for poor performance.

The table below will help illustrate how bad development and implementation carried put simultaneously went on at Eskom during period 2007-2019.

### Eskom’s fall by the numbers

<table>
<thead>
<tr>
<th></th>
<th>% Change</th>
<th>2007</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee costs (billion rand)</td>
<td>250.5 up</td>
<td>9.5</td>
<td>33.3</td>
</tr>
<tr>
<td>Employees</td>
<td>42.8 up</td>
<td>32.674</td>
<td>46.665</td>
</tr>
<tr>
<td>Coal costs (billion rand)</td>
<td>485.0 up</td>
<td>10</td>
<td>58.5</td>
</tr>
<tr>
<td>Coal purchases (mt)</td>
<td>0.8 up</td>
<td>117.4</td>
<td>118.3</td>
</tr>
<tr>
<td>Electricity sales (GWh)</td>
<td>0.15 down</td>
<td>218.120</td>
<td>208.319</td>
</tr>
<tr>
<td>Total installed capacity (MW)</td>
<td>3.5 up</td>
<td>42.618</td>
<td>44.127</td>
</tr>
<tr>
<td>Revenue (Billion Rand)</td>
<td>356.6 up</td>
<td>39.4</td>
<td>179.9</td>
</tr>
<tr>
<td>Average selling price (c/kWh)</td>
<td>400.1 up</td>
<td>18</td>
<td>90.01</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------</td>
<td>----</td>
<td>------</td>
</tr>
<tr>
<td>Debt (Billion Rand)</td>
<td>987.9 up</td>
<td>40.5</td>
<td>440.6</td>
</tr>
</tbody>
</table>

**Source: Bloomberg News supplied by Eskom**

Mike Ros sow, a power expert cited by Bloomberg had this to say, “Eskom was already under the whip for lack of capacity so they were chasing like mad dogs to get the power plants done. Management took risk and responsibility which the boards did not, probably, understand properly. Management was hardly capable of conveying a concise and understandable picture to the board.”

4.2.2 The R178 billion tender

*The Eskom Files*, an ongoing investigation by News 24, reveals that:

- Probes by law firm Bowmans and the Special Investigation Unit (SIU) found red flags in connection with Eskom contracts worth more that R178 billion—enough to fully vaccinate the entire South African population with Covid-19 shots roughly 20 times over.
- Eskom has reported more than 110 criminal cases to the police since 2018, with an additional 60 cases reported to the National Prosecuting Authority by the SIU.
- At the heart of Eskom capture, is a slush fund set up by senior executives into which contractors paid millions of rands to bankroll their luxury lifestyles.

As capital projects overlap into time and cost overruns, corrupt executives and employees look for possible loopholes and exploit them for their selfish ends.

It is alleged that the power utility, over the past 10 years awarded contracts amounting to over R178 billion to local and multinational companies tainted with corruption. These contracts relate to Kusile power station only. They range from supply of milk and toilet paper to accommodation, wastewater plants and coal supply at very inflated prices. News 24 alleges that, at Kusile, corruption, theft and fraud coupled with poor management, and inadequate planning, have seen the construction costs going up to R161 million.

According to a series of exposes based on Eskom files, News 24 revealed that:

- Hundreds of mega-contracts relating to Kusile, Medupi and Ingula power stations are tainted with systematic corruption.
- Senior executives stand at the heart of the alleged corrupt network involving employees who demanded and received millions in bribes.
- Billions of rand, representing inflated prices were paid to suppliers who colluded with Eskom managers and officials. These included contracts to supply tea and sugar at Megawatt Park head office.
- Allegedly corrupt Eskom officials were provided with sweeteners to augment their luxurious lives.
- Attempts to stem the tide of corruption were thwarted.

ON the 5th July 2021 evening, Radio 702 invited the Eskom public relation official for an interview. He officially announced that the Medupi Power Station was completed. Two nights later, I woke up to the sad news that there was an explosion at the power station. Subsequently, some employees were placed on precautionary suspension. Cause and impact of the damages is yet to be assessed.

4.3 South African Airways (SAA)

Wasserman, (2020) posits that, as of then, South African Airways was in its death spiral as the government failed to raise R2 billion from banks to keep it in the skies. In current years, the airline has been bleeding money while making heavy losses at the expense of the taxpayer now obliged to fork out R25 billion in bailouts and guaranteed loans. He further argues that the predicament is a product of political interference, weak rand and leadership turmoil.
As recent as 2011, the national airline was operating at a profit. Recently, South African Airline was under business rescue until February 2021. The implication is, during the period of business rescue they are not obliged to settle their debts. If the national airline is to fold, then the government will have to shoulder billions worth of debt; another potential burden accruing to the already overburdened tax payer.

On the top of the list of direct casualties affected by the collapse of SAA are the employees who were deserted as they went for years without salaries. As the business rescue plan was being rolled out, 2,700 would be retrenched. Both the would-be retrenches and those who would retain their jobs are still up to the time of writing this article, yet to respectively receive their retrenchment packages and monthly salaries.

For more than a decade, South African Airways (SAA) has been a drain on an already strained public purse, while systematic corruption and mismanagement have hollowed the state-owned airline. Public ire has rightly been directed on Duduzile Myeni and other directors who oversaw the long-term decline of SAA. The auditors, who cashed in on contracts while turning a blind eye to malfeasance, ought to equally shoulder the blame. Merchant (2021) The auditors admitted that they detected all the irregularities; but why then, did they not include these in their annual reports? South Africa Treasury recently told parliament that the state has spent more that R50 billion on bail-outs to SAA but sadly, value of that contribution has no tangible evidence for anyone to see. This is happening while the government is implementing austerity measures.

4.3.1 But who is Dudu Myeni?

Duduzile Myeni holds a Primary Teachers Certificate and a Secondary Teachers Diploma. In 2009 the SAA annual report listed a bachelor's degree in administration from the University of Zululand among her qualifications. It was removed the following year after Myeni admitted she was “studying toward it” with two majors outstanding. She founded a consulting firm, Skills Dynamics in 1999 which facilitated a number of social development programs on behalf of various Government Departments and major corporations in and around Richards Bay. As of 2015 she was also a board member of the Jacob Zuma Foundation as well as vice-president of the African Water Association, Chairperson of the South African Association of Water Utilities and the Mhlathuze Water Board, Director of Trade and Investment KwaZulu-Natal.

In 2020, responding to an application by the civil society organisation, the Organisation Undoing Tax Abuse (Outa) and SAA Pilots Association, the highcourt declared Duduzile Myeni a delinquent director and ordered her never again, to hold any directorship. The court held that Myeni had engaged in dishonest conduct at the SAA tantamount to wilful and gross negligence, breaching her responsibilities as a director. Marchant (2021). The court described her as ‘a director gone rogue.’ Her actions did immense harm to both SAA and South Africa. Investigations are still under way. In its latest report, the Special Investigating Unit (SIU), Judge Ronel Tolmay concluded "This court cannot but find that she failed abysmally in executing her fiduciary duty. In my view, a lifelong delinquency order is appropriate. Ms. Myeni is not a fit and proper person to be appointed as a director of any company, let alone a state-owned corporation.”

4.3.2 What caused the collapse of SAA?

In 1991, the South African government deregulated the domestic airlines industry. This brought with it competition. To say that the airline’s failure can also be attributed to competition is a flimsy excuse. Boards and senior managers are employed to deliver, if they cannot, they must be asked to leave. The weak rand is another poor excuse. The airline could have identified some opportunity within the country’s weakening currency and then exploit it optimally.

The demise of SAA came at the backdrop of systematic collapse in both internal and external controls, transparent and accepted procurement procedures. The collapse was embraced by a board, at whose helm was Duduzile Myeni who sat on the board from 2009 to 2017. She was ‘appointed’ an acting chief executive, acting chairperson and then permanent chairperson from 2012 to 2017. It is alleged that she disregarded the provisions of the Public Finance Management Act through outright lies to the minister of Public Enterprises, Emirate and Airbus thereby undermining two crucial contracts.
A number of human resources related issues involving the board and senior management contributed to the fall of SAA. The board chairperson failed to unite the board and senior management to work toward the interest of the airline. This fact in supported by a number of incidences. In January 2014 the board wrote a letter to the responsible minister expressing their dissatisfaction with Myeni’s leadership. In March the same year the SAA CEO accused Myeni of being corrupt. In retaliation, Myeni accused the CEO of gross breaches of governance. As the minister was about to intervene, the president redeployed him to another ministry. The incoming minister replaced all those critical of Myeni. Thus, people who were mandated to drive the airline’s vision were, at most times, trying to settle personal agendas. On the other hand, strikes by lower lever employees cost the airline around a wooing R50 million a day.

In March 2015 South African Airways went into an agreement with Airbus to lease 5 Airbus 330 planes as part of the turnaround plan. Later on, during the year, Myeni, without the knowledge of the executive management, approached Airbus to change key clauses in the contract to the effect that SAA would buy the planes, sell them to some unknown third party who would then lease them to SAA. This obviously raised concerns of corruptions as normal procurement channels were ignored. Changes to contract clauses triggered a clause in the original contract that provided for the approval by the minister of finance for any changes. The minister refused to approve and, many suspect that this could be one of the reasons why he was relieved of his duties by the then president. The same fate, later on, befell his successor. During the same year, disaster struck again. The most SAA profitable Johannesburg-Mumbai route was discontinued. It was later learnt that the manipulative Gupta family— who stand accused of capturing the state during the era of Jacob Zuma— influenced SAA to surrender the route to Jet Airways and Indian airline Wasserman (2020). This was the most disastrous decision ever made in the history South African Airways.

As acts of gross corporate misgovernance went unabated, it was reported that the airline had reached a stage where it could not repair its fleet. SAA Technical, a company wholly owned by SAA, is responsible for repairing both SAA and third-party fleets. In 2019 part of SAA fleet was forcibly grounded for compliance checks after the discovery of irregularities during inspection. Thad been reported that ‘fake parts’ were used to service the fleet. Wasserman (2020).

4.3.4 The role of the auditors

It is alleged that PwC and Nkonki, auditors responsible for SAA external audits from 2013 to 2016, gave SAA a clean bill of health while the fraud and corruption took toll. They failed to identify areas of high risk and as a result, deficiencies and malfeasance in procurement that took place, went unchecked. This happened during the financial years 2012-2016. It was the intervention of the Auditor General in 2017 that the acts of corruption were detected and subsequently issuing a qualified report on the financial statements of 2017. It was noted that assets whose existence could not be verified, misreporting of inventory and maintenance costs and failure to properly account for impairment costs gave rise to gross misrepresentation of financial statements for the previous years. It therefore became apparent that the board failed to maintain the integrity of the Public Finance Management Act. Oversight on the part of the auditors is hard to explain.

4.4 VBS Mutual Bank crash

Members of the board were allegedly bought to remain silent, to bury their heads in the sand and to see no evil and hear no evil. Meanwhile, the poor man’s little savings were being fleeced. What a shame.

Available evidence shows that VBS was a modest but financially struggling mutual bank. Its core business entailed accepting deposits from retail depositors, burials and stokvels. Such deposits would later be lent to clients acquiring immovable properties secured by mortgage bonds and short-term loans to depositors using deposits made at the bank as security.

4.4.1 How did VBS crash?

VBS bank was captured by few individuals who then went on looting and asset stripping sprees that left the bank with literally nothing in its vaults. Subsequently the bank was placed under curatorship to facilitate immediate protection of depositors’ welfare. Kuben Naidoo the chief executive of banks regulating authority said the curator
found the bank beyond resuscitation. Damage done to the bank was irreparable. The next best option available
was to liquidate the bank in what the regulatory authority believed to be in the best interest of all stakeholders
concerned. The regulator argued that liquidation was necessary because VBS Mutual Bank was hopelessly
insolvent after being subjected to massive fraud Rossouw, (2019).

I find Masondo (2018) argument very intriguing and eye-opening. He argues that and I quote, “the current refrain
and single narrative that VBS collapse was under the weight of an inept and rapacious black management is, at
best inaccurate and at worst a fabrication.” He further argues that this narrative, sponsored by some with vested
interests and a twitter mob desperate for retweets, only prevails where facts are absent and a fair and balanced
analysis is rare.

In the same article, Masondo(2018) posits that the collapse of VBS was a result of a combination of poor
management, a heavy dose of powerful commercial interests, poor regulations and a tinge of politics. If we are to take out the word black from the phrase rapacious black management, his first narrative/excuse
above, and what he proposes to be the reasons are the same as illustrated below:

**Inept and poor management**

**Rapacious and heavy doses of powerful commercial interests**

**Inept and regulations (not poor) but poorly implemented by corrupt and incompetent and inefficient leaders.**

**Rapacious and a tinge of politics**

In an article by Sipho Maseko in the City Press titled What happened to VBS? The author argues that (in Italic):

1. VBS did not break the law because no law forbids mutual banks from taking deposits from any individual or
entity. But one may argue that majority of VBS directors then, were chartered accountants who ought to have
known that the Municipality Finance Management Act 56 of 2003 precludes municipalities from making deposits
in mutual banks and should have refrained from targeting them as a potential and lucrative market.

2. Treasury negated on one of its many duties of conducting an environment for black players in banking,
insurance and asset management by giving VBS at least, another two years to put its house in order. But then the
poor person’s savings had already been swallowed and municipality funds (pooled by both the poor and the rich)
were now the next target. Surely, it is unfair and unethical to create space for the middle and high-income black
players at the expense of the poor.

3. South African Reserve Bank (SARB) often rescues other banks. Basic principle of banking states that banks
receive deposits from willing depositors on the understanding that such funds may be recalled, at least on demand
or at short notice. On the basis of the basic principle above, banks will lend out such deposits to willing borrowers
subject to some rigorous due diligent tests in order to assess the probabilities of ability and inability to pay back.
In my opinion, to ask any central bank world over, that also survives on public funds, to rescue a bank after
unbiasedly assessing that it is incorrigibly beyond resuscitation amounts to compounding an economic hara-kiri.

4. Credence to the theory that Public Investment Corporation (PIC) to force VBS to collapse by refusing to lend it R1.5 billion. Again, PIC is a custodian of public funds. A due diligence test might have informed it to decide otherwise.

**Advocate Terry Motau's findings**

An investigation carried on by Advocate Terry Motau SC who was appointed to investigate what had gone wrong
at the bank revealed widespread looting and subsequent cover-ups. The investigation came out with three
interlinked processes that perpetrators used to fleece the bank:
Large payments to perpetrators and bribes to some directors to keep them silent

Payments of very large sums of money were made to various perpetrators of the looting scheme as a reward for their participation while substantial bribes were simultaneously being paid to certain VBS directors and other related parties in order to buy their silence while looted funds were used to finance operations of related companies. Masondo and Resburg (2018) reveal that a source close to Sizwe Ntsaluka Bogodo, VBS curators appointed by the reserve bank discovered that Vele Investments used depositors’ funds to acquire and operate many of its subsidiaries. The boards of both Vele Investments and VBS were chaired by the same person. Vele Investments was also VBS majority shareholder with 53% holdings and appears to have used the bank to keep its subsidiaries operational.

Bank statements made available to City Press reveal that both executive and non-executive director helped themselves to hundreds of millions of rand to finance their flamboyant and extravagant lifestyles. The bank collapsed under a wait of unserviced personal loans, overdrafts, vehicle finance deals, mortgage bonds and complex inter-company transactions between Vele Investments and its subsidiaries Masondo & Rensburg (2018). Borrowers simply did not service their loans, overdrafts and vehicle loans. Vele Investments subsidiaries financed their operations on huge VBS overdrafts and complex intercompany loans. The whole setup became more of a Ponzi scheme Masondo and Rensburg (2018).

The Motau investigation reveals that contract financing was a prime location of looting funds from VBS. Strangely, the contract finance book which eventually became the largest VBS asset was not incorporated in the bank’s operating software known as EMID but was recorded to an excel spreadsheet that could be easily manipulated. This could have been a deliberate move since excel could not generate automatic reports showing facilities that were not serviced.

Shockingly the board chairman is alleged to have instructed executive directors and senior management to wipe out overdrawn balances on some 34 accounts held at VBS linked to him, his close associates and companies in which held some interest by crediting such accounts with fictitious amounts totaling R248 950 000 while creating new and increased overdraft facilities for these 34 companies Adv. Motau, SC (2018) That the chairman instructed his juniors to create new investment accounts in Vele Investments subsidiaries and companies linked to those close to him, and go further to cause issue of R190 million in VBS to the same, is another instance of a director gone rogue and gave no regard to all stakeholders surrounding him.

Attracting substantial deposits from municipalities and state entities

Despite the fact that he was a chartered accountant who ought to have been familiar with the provisions of the Municipality Finance Management Act, the then chief executive was quite proud to come up with a strategy that brought with it huge deposits from municipalities. He also believed that there was nothing wrong in paying “commission” to middlemen-who became to be known as consultants-for bringing in huge deposits. The commission became an incentive for municipal officials who agreed to roll-over their funds after the expiry of initial term of deposit. Most of these consultants turned out to be influential politicians who ended up side-stepping corrupt municipality officials when it came to the sharing of the commission. VBS Bank ended up dealing directly with municipal officials.

According to the Terry Motau findings, the VBS general manager responsible for treasury admitted that every deposit ever made by a municipality into VBS arose as a result of a so called “commission’ or “consultation fee” paid to solicits for some deposit. In some instances, agreements for a 2% commission for every deposit. Such agreements appeared in emails and invoices kept in the treasury department.

Manipulation of the banking system by the captors

That the South African Reserve Bank was hoodwinked is, in my opinion not complicity. One would then want to ask, what could it have been?

Citing the findings of Advocate Motau, the then VBS general manager responsible for treasure admitted that he played a central role in manipulating the banking systems as well as the fraudulent misrepresentations contained in
the regulatory returns known as DI returns. He admitted receiving large sums of money for his complicity. The then chief financial officer equally admitted that he was an essential participant in the manipulation of the VBS banking system, the material misrepresentation contained in financial statements for the year ended 31 March 2017 and the fraudulent submission of the DI returns. He also admits to have received large rewards for the part he played. Motau (2018)

The central bank failed to play its oversight role of implementing good pieces of legislation. This could have minimised damage incurred by the poor investor.

4.5 But where were the auditors and the regulatory authority when the malfeasance continued unabated?

Taxpayers all over contribute towards proper upkeep of the government and demand the government to put their money to good use and account for it. In this instance, the regulatory was reactive instead of being proactive. In fact, it intervened when it was too late. Rossouw (2018) suggests that mutual banks tend to be small and carry less risk hence regulatory authorities tend to place less strict regulations than those placed on commercial banks. Nevertheless, mitigatory measures must always be in place to minimise that little risk.

According to the Motau report, 2017 financial statements reflected debt financing—the largest asset in rand value terms—standing at a substantial R421 885 640 and a corresponding and very conservative impairment allowance of R3.5 million. An insider believes that an 80%-90% of the book value of debt financing, based on non-performance, should have been provided.

Where were the auditors in the scheme of things?

According to the Motau report, the then Chief Financial Officer and Executive director under whose control were the financial statements, testified that the financial statements for 2015 were accurate. There were certain inaccuracies in 2016. Financial statements for 2017 were grossly misleading. In 2017, the call and short-term deposits were overstated by R700 million created form some fictitious deposits with another leg hidden in some suspense account.

As the external audit engagement clerks insisted on getting the information, the VBS CFO called the 2017 KPMG engagement partner who noted that there was around R 0.5 billion that could not be accounted for. Instead, the audit partner accepted it as a reconciling item not affecting the balance sheet. According to Motau report, the VBS CFO sent a WhatsApp message to the board chairman to that effect. Subsequently, an audit committee meeting was held on 30 June 2017 and on 17 July 2017, the engagement partner signed the auditors’ report stating that in KPMG’s opinion, the financial statements “fairly present in all material aspects, the financial position of VBS Mutual bank as at 31 March 2017, and its financial performance and cash flows for the year that then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Mutual Bank’s Act” Motau:2018:25

5. Conclusion

The phenomenon referred to as corruption manifests itself when one chooses to sacrifice his/her moral uprightness, personal integrity and generally accepted morals and applies unorthodox means to enrich oneself at the expense of the general public. It is a criminal offense committed intentionally. As it goes on, it breeds inefficiency, thus, it increases the cost of doing business and incompetency defined by the dictionary as failure to execute what one is mandated to do successfully. On the other hand, inefficiency and incompetency that come more or less uninvited are an unintentional inability to carry out assigned tasks due to factors associated with them. Corruption and inefficiency and incompetency share a common denominator. Where inefficiency and incompetency initially dominate, the probability of corruption taking over is very high. Whichever way one looks at them, they increase the cost of doing business. They behave like two corpses finding their final resting place in one grave; dearth in corporate governance. Often, board members and senior executives who lack both efficiency and competency, unknowingly, commit acts of corruption. But law is very fair. Ignorance of law excuses nobody. They ought to have known. Empirical studies have proven that where recruitment is based on corrupt tendencies mentioned above, inefficiency and incompetency take root. There is no conclusive evidence that associates inefficient and incompetent employees with corruption but then it is easy for the corrupt to exploit such weaknesses.
The thin line separating corruption and inefficiency and incompetency creates more problems in solving the puzzle of this research project. A number of high-profile politicians appeared before the Zondo Commission to account for some of their actions during the state capture enquiry. Responses from some of the interviewees including the then sitting president, went as low as ‘Angwazi’ meaning ‘I don’t know’.

The study reveals that in all four cases, dearth in corporate governance and the subsequent demise of key economic institutions is a result corruption Where inefficiency and incompetence prevail, corruption takes over. Not because the incompetent and inefficient are corrupt, but they can easily be manipulated. Political interference tent to attract incompetency in State Owned Enterprises giving space to corruption. Private sector scenario is more complex. Owners and their appointees have an insatiable appetite of what money can give: power and influence. Dictatorial tendencies seem to be in the DNA of some of them.

Steinhoff International management committee comprised highly qualified and experienced individuals with a proven track record. The Steinhoff debacle can therefore not be attributed to inefficiency and incompetency on the part of the management committee. The phrase “accounting irregularities” was used to mask outright corruption and subsequent fraud. Accounting information was manipulated with the intention of materially misrepresenting the true and fair position of the company’s state of financial affairs. The shareholders were subsequently hoodwinked into believing that the group was performing well while the opposite was happening. The Eskom fiasco in a result of the board of directors failing to play their oversight role. This is a typical example of gross inefficiency and incompetency. The board failed to execute its mandate successfully and at an economically optimal cost as evidenced by the time and cost overruns. Inefficiency and incompetence in playing their oversight role, gave birth to corruption. As the board failed, senior managers were allegedly busy identifying weaknesses within the system in order to enrich the themselves at the expense of the bona fide consuming public. The person who presided over the demise of SAA had a certificate in primary education and a diploma in higher education. She had absolutely no knowledge and experience in the airline industry. One begins to wonder how she got there. Acts of corruption with impunity resulted in the airline incurring debts it could not sustain thus compromising its competitive leverage and ability to maintain its fleet resulting in it failing to maintain both its fleet and third- party fleets it was contracted to maintain. Crowning the whole saga, the perpetrator of the acts of corruption seemed to enjoy the protection of the then highest office in the country. The VBS crash was a result of a well-orchestrated operation by highly qualified individuals who took advantage of the gullible poor depositors and poorly monitored banking regulations. Through outright deceit, they managed to attract deposits from whoever was willing to be bribed and gullible enough. They then went on to line their pockets. What happened at the VBS Mutual Bank exposes how rapacious a human being can be. Acts of the perpetrators are pure corruption perpetrated out of greediness and insatiable appetite of what money can bring; power and influence. But then where was the reserve bank?

One worrying fact is that all these malfeasances happened under the watch of external auditors. The question that now pops up is: Who will now police the external auditors?

As stated earlier, the study covers four of the many South African key economic institutions. A wider study may have allowed a different conclusion to be drawn.

6. Recommendations

Political interference cannot be done way with but it ought to happen with due regard to what politicians able to deliver. Legislative and regulatory mechanisms put in place ought to be religiously adhered to and sanctions applied immediately for any deviation. Those engaged to fill vacant posts should be brought on board not just on the basis of the qualifications and experience. Time ought to be invested in tracking their integrity and track record. Creditability of external audits has been severely compromised. Independent parties should now be called upon to review the independent auditors’ reports.

List of references