



Registration No. : 1990/0508/07

Unit 3 Rosmead Place, 67 Rosmead Ave  
Kenilworth, 7708  
Cape Town  
P.O. Box 171, Rondebosch, 7701  
South Africa

Telephone : (+27) 021 683 5490  
Facsimile : (+27) 021 683 6365  
Email : ma@ccii.co.za  
URL : <http://www.ccii.co.za/>

Our Ref. : sdp/letters  
Your Ref. :

2002-05-29

The Legal Director  
Public Accountants' and Auditors' Board  
P.O. Box 751595  
Garden View  
2047

Attention : Ms Jane O'Connor

Dear Ms O'Connor

### **Complaint regarding Professional Conduct in the Provision of Professional Services**

During the last year and a half or so, the so-called Joint Investigation Team (JIT), consisting of the Office of Auditor-General, the Office of the Public Protector and the National Directorate of Public Prosecutions has conducted a joint investigation into the Strategic Defences Packages (SDPs) for the South African Department of Defence (DoD). This culminated in the publication of their Joint Report which was tabled in Parliament on 2001-11-15. Certain of the aspects investigated by the JIT were allegations and complaints made by me on behalf of my company, CCII Systems (Pty) Ltd.

Regarding the forensic phase of the investigation, Chapter 2, Paragraph 2.2 *The Forensic Investigation by the Auditor-General* and Paragraph 2.2.1 *Operational Teams of the Auditor-General* of the Joint Report state the following :

*“Due to the shortage of personnel in the Office of the A-G, personnel from private audit firms were contracted in and formed part of the teams.”*

One of these private audit firms was PricewaterhouseCoopers Incorporated.

Directors : R.M. Young, A.R Knight

Paragraph 2.2.1 goes on to state the following :

*“Precaution was taken to ensure that no conflict of interest would arise.”*

Later, in Chapter 10, Paragraph 10.3.1.4, the Joint Report states, inter alia the following :

*“The mere appearance of a conflict may be as serious and potentially damaging as an actual conflict of interest. Reports of conflicts based on appearances can undermine public trust in ways that may not be restored adequately even when the mitigating facts of a situation are brought to light. Apparent conflicts should therefore be evaluated and managed with the same vigour as known conflicts.”*

Paragraph 10.3.1.5, goes on to state the following :

*“Once a conflict of interest situation, actual or potential, is recognised, the ethical responses are straightforward: the person must avoid the conflict by **disclosure and complete recusal**.”*

As I believe the supporting evidence shows, PwC had a real and material conflict of interest in the SDPs and its joint investigation. Their responses so far to me indicate that they made no or little effort in avoiding or managing these conflicts of interest resulting in a situation where I have no trust in the joint investigation or the Joint Report.

Accordingly, I have recently written two letters to Mr Colin Beggs, the Chief Executive Officer of PricewaterhouseCoopers Inc, entitled *Professional Conduct regarding Provision of Professional Services*.

In this regard, please find attached my two letters dated 2002-04-15 (resent on 2002-04-22) and 2002-05-08 as well as Mr Beggs's one reply to my first letter dated 2002-04-22.

Although I received a brief reply to my first letter, I consider Mr Beggs's response totally inadequate and in fact a bare denial to address my legitimate enquiry and concerns.

Concerning my second letter to Mr Beggs, he has not responded to me at all.

I therefore wish to lodge a formal complaint with the Public Accountants' and Auditors' Board against Mr Beggs as Nomino Officio of PricewaterhouseCoopers Inc and PricewaterhouseCoopers Forensic Services (Pty) Ltd.

My letters to Mr Beggs are self-explanatory, but for purposes of formality, my complaints against PwC are the following :

- Their undertaking of an investigation or “forensic audit” into the Strategic Defence Packages (the “Arms Deal”) on behalf of the Office of the Auditor-General when it was obvious, or it should have been obvious, that there were prima facie conflicts of interest involving PwC's own auditees as well as the auditees of their proposed merger partners.
- In accordance with the Auditor-General's instructions, failing to disclose such conflicts of interest or potential conflicts of interest to the Office of the Auditor-General.
- In accordance standard codes of practice for accountants, failing to disclose such conflicts of interest or potential conflicts of interest to the affected parties in the investigation or forensic audit into the Strategic Defence Packages, specifically failing to disclose this situation to me.

- In accordance standard codes of practice for accountants, failing to respond timeously and/or adequately to my legitimate enquiry and concerns.

Mr Beggs does, however, appear to have responded indirectly in this matter to an enquiry from a representative of the media as follows :

*“He said many of Young’s statements were factually incorrect, but declined to specify”*

and :

*“We are not prepared to enter into a debate regarding the allegations and are in any event precluded from doing so in terms of the statutory provisions in terms of which the investigation was conducted.”*

Regarding Mr Beggs’s assertion that many of my statements in my second letter are factually incorrect, I advise that I emphatically reject this. Although I have not had the same resources as a contracted investigator, I have diligently investigated each and every proposition of fact before putting it to Mr Beggs. In the vast majority of instances I have third-party documentary evidence for each proposition. In certain instances the evidence is contained within the Joint Investigation Team’s Joint Report.

One valid conclusion of logic from Mr Beggs’s response is that at least some of my statements are factually correct. I actually assert that they are all correctly or at least materially correct. If Mr Beggs declines to specify or respond to my assertions in any detail, I cannot be expected to do otherwise.

Nevertheless, I am in a position to provide PAAB with a significant number of documents and/or references to other third party sources to substantiate my propositions of fact.

Regarding Mr Beggs’s assertion that they *“are in any event precluded from doing so in terms of the statutory provisions in terms of which the investigation was conducted”*, my questions to PwC were in any event, simple :

- Tests - what conflict of interest tests were required to be performed by PwC?
- Instances - what conflicts of interest were found by PwC?
- Disclosure - what conflicts of interest were disclosed by PwC and to whom?

I hold that in terms of the code of professional conduct for accountants, that the principle of *professional duty* applies as follows :

(c) *When there is a professional duty or right to disclose:*

(i) *to comply with technical standards and ethics requirements - **such disclosure is not contrary to this section;**”*

Paragraph 10 of the *Preface* of the Joint Report states the following :

*“The impartiality, objectivity and independence of the three institutions involved are issues that have remained in the arena consistently. We hope that we will not be found wanting.”*

Considering the prima facie conflicts of interest involved and that PwC effectively undertook the forensic investigation on behalf of the Auditor-General and were intimately involved in the finalisation of the Joint Report, I have serious reservations about the **impartiality**, **objectivity** and **independence** of the joint investigation, specifically in respect of my complaints. In this regard, I certainly am of the opinion that the Joint Investigation Team has been “**found wanting**” and very severely so indeed.

In support of my request, I provide the annexures listed at the end of this letter. Please contact me should you require any further supporting documentation in support of my allegations and complaint.

In conclusion, I request that you initiate an investigation into the conduct of PricewaterhouseCoopers Inc, PricewaterhouseCoopers Forensic Services (Pty) Ltd and Mr Beggs regarding the prima facie conflict of interest situation and in terms of the code of professional conduct for accountants and take whatever steps are appropriate in this regards

Yours sincerely



R.M. Young  
Managing Director

Annexures

- Letter to Mr C. Beggs of PWC dated 2002-04-15.
- Letter (resent) to Mr C. Beggs of PWC dated 2002-04-22.
- Letter from Mr C. Beggs of PWC dated 2002-04-22.
- Letter to Mr C. Beggs of PWC dated 2002-05-05 (including Appendix A).
- Updated Appendix A of Letter to Mr C. Beggs of PWC dated 2002-05-05.
- *Preface* to JIT's Joint Report dated 2001-11-14.
- Page 29 of Chapter 2 of JIT's Joint Report.
- Pages 271 to 275 of Chapter 10 of JIT's Joint Report.