CLOSING REPORT ON AN INVESTIGATION INTO ALLEGATIONS OF MALADMINISTRATION AND IMPROPER CONDUCT IN CONNECTION WITH A MASTER SERVICE AGREEMENT ENTERED INTO BETWEEN ESKOM HOLDINGS SOC LIMITED (ESKOM) AND MCKINSEY COMPANY INCORPORATED (MCKINSEY), AS WELL AS PAYMENTS MADE TO TRILLIAN CAPITAL AND PARTNERS (PTY) LIMITED (TRILLIAN)
1. **INTRODUCTION**

1.1. This is a closing report of the Public Protector issued in terms of section 182(1)(b) of the Constitution of the Republic of South Africa Act, [Act No. 108 of 1996] (the Constitution) and published in terms of section 8(1) of the Public Protector Act, [Act No. 23 of 1994] (the Public Protector Act).

1.2. The report relates to an investigation conducted in connection allegations of maladministration and improper conduct in connection with a Master Service Agreement entered into between Eskom Holdings SOC Limited (Eskom) and McKinsey Company Incorporated (McKinsey), as well as payments made to Trillian Capital and Partners (Pty) Limited (Trillian).

1.3. Copies of the report are provided to Ms Peace Bertha Mabe, the Complainant in the matter, the Interim Chairperson of Eskom Board of Directors, Professor Malegapuru Makgoba and the Group Chief Executive of Eskom, Mr André de Ruyter in terms of section 8(3) of the Public Protector Act, 1994.

1.4. The investigation originates from a complaint lodged by the African National Congress (ANC) Member of Parliament, Ms Peace Bertha Mabe on 16 October 2017, against Eskom.

2. **THE COMPLAINT**

2.1. Ms Mabe based her complaint on unspecified media reports and inferences, in which it was alleged that, there existed possible procurement irregularities in connection with a Master Service Agreement entered into between Eskom, McKinsey, as well as payments made to Trillian flowing from the Master Service Agreement referred to herein.
2.2. She requested that an investigation be conducted with a view to determining the legality of the Master Service Agreement entered into between Eskom and McKinsey, whether Eskom had derived value for money flowing from the Master Service Agreement; whether Trillian had rendered services on behalf of Eskom; and whether the Directors of Trillian had disclosed their financial business interests prior rendering services, if any.

3. Based on the analysis of the complaint and the allegations contained therein and the information that came to my attention from various sources, the following issues were identified to inform and focus the investigation:

3.1. Whether the procurement of the services of McKinsey was in accordance with legislation and any other prescripts regulating procurement of goods and services by organs of state, as well as whether payments made to Trillian flowing from the Master Service Agreement were legally due, and if not so, whether the conduct constituted maladministration, improper conduct and irregular expenditure.

4. **POWERS AND JURISDICTION OF THE PUBLIC PROTECTOR**

3.1 The Public Protector is an independent constitutional institution established under section 181(1)(a) of the Constitution to strengthen constitutional democracy through investigating and redressing improper conduct in state affairs.

3.2 Section 182(1) of the Constitution provides that:

"The Public Protector has the power as regulated by national legislation –
(a) to investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice;"
(b) to report on that conduct; and
(c) to take appropriate remedial action."

3.3 Section 182(2) directs that the Public Protector has additional powers and functions prescribed by national legislation.

3.4 The Public Protector is further mandated by the Public Protector Act to investigate and redress maladministration and related improprieties in the conduct of state affairs. The Public Protector is also given power to resolve disputes through conciliation, mediation, negotiation, advising the complainant regarding appropriate remedies or any other means that may be expedient under the circumstances.

3.5 In the matter of the President of the Republic of South Africa v Office of the Public Protector and Others (91139/2016) [2017] ZAGPPHC 747; 2018 (2) SA 100 (GP); [2018] 1 All SA 800 (GP); 2018 (5) BCLR 609 (GP) (13 December 2017), the court held as follows, when confirming the powers of the Public Protector:

3.5.1 The constitutional power is curtailed in the circumstances wherein there is conflict with the obligations under the Constitution (paragraph 71);

3.5.2 The Public Protector has the power to take remedial action, which include instructing the President to exercise powers entrusted on him under the Constitution if that is required to remedy the harm in question (paragraph 82);

3.5.3 Taking remedial action is not contingent upon a finding of impropriety or prejudice. Section 182(1) afford the Public Protector with the following three separate powers (paragraph 100 and 101):

(a) Conduct an investigation;
(b) Report on that conduct; and
(c) To take remedial action.

3.5.4 The Public Protector is constitutionally empowered to take binding remedial action on the basis of preliminary findings or *prima facie* findings (paragraph 104);

3.5.5 The primary role of the Public Protector is that of an investigator and not an adjudicator. Her role is not to supplant the role and function of the court (Paragraph 105 o);

3.5.6 The fact that there are no firm findings on the wrong doing, does not prohibit the Public Protector from taking remedial action. The Public Protector’s observations constitute *prima facie* findings that point to serious misconduct (paragraph 107 and 108); and

3.5.7 *Prima facie* evidence which point to serious misconduct is a sufficient and appropriate basis for the Public protector to take remedial action (paragraph 112).

3.6 The PIC is an organ of state and its conduct amounts to conduct in state affairs, as a result, the matter falls within the ambit of the Public Protector’s mandate. The Public Protector’s power and jurisdiction to investigate, report and take appropriate remedial action was not disputed by any of the parties.

5. THE INVESTIGATION

5.1. **Methodology**

5.1.1. The investigation was conducted in terms of section 182 of the Constitution and sections 6 and 7 of the Public Protector Act.
5.1.2. The Public Protector Act confers on the Public Protector the sole discretion to determine how to resolve a dispute relating to allegations of improper conduct or maladministration.

5.1.3. The investigation process included the analysis of reports on investigations conducted in respect of the affairs of Eskom, in particular, the Trillian Report issued on 27 June 2017, the National Treasury Report on a forensic investigation into various allegations at Transnet SOC Ltd and Eskom conducted by Fundudzi Forensic (Pty) Ltd issued in November 2018, a Report of the Portfolio Committee on Public Enterprises on the Inquiry into Governance, Procurement and the Financial Sustainability of Eskom, issued on 28 November 2018, as well as a Court judgment in the matter between *Eskom Holdings SOC Limited v McKinsey and Company Africa (Pty) Ltd and Others (22877/2018) [2019] ZAGPPHC 185 (18 June 2019)*.

5.2. Approach to the investigation

5.2.1. Like every Public Protector investigation, the investigation was approached using an enquiry process that seeks to find out:

5.2.1.1. What happened?

5.2.1.2. What should have happened?

5.2.1.3. Is there a discrepancy between what happened and what should have happened and does that deviation amount to maladministration or improper conduct?

5.2.1.4. In the event of maladministration or improper conduct what would it take to remedy the wrong or to place the Complainant as close as possible to where they would have been but for the maladministration or improper conduct?
5.2.2. The question regarding what happened is resolved through a factual enquiry relying on the evidence provided by the parties and independently sourced during the investigation. In this particular case, the factual enquiry principally focused on whether or not the procurement of the services of McKinsey was conducted in accordance with legislation and any other prescripts regulating the procurement of goods and services by organs of state, as well as whether payments made to Trillian flowing from the Master Service Agreement were legally due.

5.2.3. The enquiry regarding what should have happened, focuses on the law or rules that regulate the standard that should have been met by Eskom and/or its employees to prevent maladministration and improper conduct.

5.3. The Key Sources of Information

5.3.1. Documents

5.3.1.1. Copy of the complaint’s complaint document;

5.3.1.2. A copy of the Public Protector’s Report Number 6 of 2016/2017 titled “State of Capture” issued on 14 October 2016;

5.3.1.3. A copy of Trillian Report issued on 27 June 2017;

5.3.1.4. A copy of the Judicial Commission of Inquiry to inquire into allegations of state capture, corruption and fraud in the public sector including organs of state’s Terms of Reference published in the Government Gazette number 41403 dated 25 January 2018;

5.3.1.5. A copy of the National Treasury Report on a forensic investigation into various allegations at Transnet SOC Ltd and Eskom conducted by Fundudzi Forensic (Pty) Ltd issued in November 2018;
5.3.1.6. A copy of a Report of the Portfolio Committee on Public Enterprises on the Inquiry into Governance, Procurement and the Financial Sustainability of Eskom, issued on 28 November 2018;


5.3.2. **Correspondence Sent and Received**

5.3.2.1. A copy of a letter from the Public Protector dated 16 October 2016 addressed to the Ms Peace Bertha Mabe;

5.3.3. **Legislation and other prescripts**

5.3.3.1. The Constitution of the Republic of South Africa, 1996;
5.3.3.2. The Public Protector Act, 1994 (Act 23 of 1994);

5.3.4. **Websites**

5.3.4.1. www.parliament.gov.za;
5.3.4.2. www.dpe.gov.za;
5.3.4.3. www.eskom.gov.za;
5.3.4.4. www.publicprotector.org;
5.3.4.5. www.sastatecpature.org.za;

5.3.5. **Case Law**

5.3.5.1. *Economic Freedom Fighters v Speaker of the National Assembly and Others; Democratic Alliance v Speaker of the National Assembly and Others* CCT 143/15; CCT171/15 [2016] ZACC 11, 2016 (5) BCLR 618 (CC); 2016 (3) SA 580 (CC); 31 March 2016;
5.3.5.2. President of the Republic of South Africa v Office of the Public Protector and Others (91139/2016) [2017] ZAGPPHC 747; 2018 (2) SA 100 (GP); [2018] 1 All SA 800 (GP); 2018 (5) BCLR 609 (GP) (13 December 2017).

5.3.5.3. Eskom Holdings SOC Limited v McKinsey and Company Africa (Pty) Ltd and Others (22877/2018) [2019] ZAGPPHC 185 (18 June 2019);

6. THE DETERMINATION OF THE ISSUES IN RELATION TO THE EVIDENCE OBTAINED AND CONCLUSIONS MADE WITH REGARD TO THE APPLICABLE LAW AND PRESCRIBITS:

6.1. Regarding whether the procurement of the services of McKinsey was conducted in accordance with legislative prescripts regulating procurement of goods and services by organs, as well as whether payments made to Trillian flowing from the Master Service Agreement were legally due, and if not so, whether the conduct constituted maladministration, improper conduct and irregular expenditure:

Common Cause Issue

6.1.1. It is not disputed that, in 2015, Eskom and McKinsey entered into a fixed-fee term contract, the purpose of which was to govern the relationship between the parties (Eskom and McKinsey) pending the conclusion of the Master Service Agreement.

6.1.2. It is also not disputed that, following the cancellation of the Master Service Agreement in 2016, Eskom and McKinsey negotiated a settlement which resulted in a payment in excess of R1.7 billion to McKinsey and Trillian.
Issue in Dispute

6.1.3. The issue for my determination was whether the procurement of the services of McKinsey was conducted in accordance with legislative prescripts regulating procurement of goods and services by organs of the State, as well as whether payments made to Trillian flowing from the Master Service Agreement were legally due.

6.1.4. The investigation conducted revealed that, on 18 March 2016 and 22 April 2016 respectively, the former Public Protector received complaints from Father S. Mayebe, on behalf of the Dominican Order, a group of Catholic Priests; the then leader of the Democratic Alliance and Leader of the Opposition in Parliament, Mr Mmusi Maimane, and a member of the public who chose to remain anonymous, following media reports alleging, *inter alia*, that:

6.1.4.1. The relationship between the former State President, Mr Jacob Zuma, and the Gupta family had evolved into “state capture” underpinned by the Gupta family having power to influence the appointment of Cabinet Ministers and Directors in Boards of State Owned Entities (SOEs) and leveraging those relationships to get preferential treatment in state contracts, access to state provided business finance and in the award of business licenses. As a consequence, an investigation was conducted and focused on, *inter alia*:

6.1.4.1.1. *Whether any state functionary in any organ of state or other person acted unlawfully, improperly or corruptly in connection with the award of state contracts or tenders to Gupta linked companies or persons was conducted;*

6.1.4.1.2. *Whether any state functionary in any organ of state or other person acted unlawfully, improperly or corruptly in connection with the award of state contracts or tenders to Gupta linked companies or persons;*
6.1.4.1.3. Whether any state functionary in any organ of state or other person acted unlawfully, improperly or corruptly in connection with the extension of state provided business financing facilities to Gupta linked companies or persons;

6.1.4.1.4. Whether any state functionary in any organ of state or other person acted unlawfully, improperly or corruptly in connection with exchange of gifts in relation to Gupta linked companies or persons; and

6.1.4.1.5. Whether any person/entity was prejudiced due to the conduct of the said state functionary or organ of state.

6.1.5. On 16 October 2016, the former Public Protector issued a report (Report 6 of 2016/2017) communicating the outcome of the investigation in line with the provisions of section 182(1)(b) of the Constitution of the Republic of South Africa, 1996, and section 3(1) of the Executive Members Ethics Act and section 8(1) of the Public Protector Act, 1994.

6.1.6. The Public Protector, in the report referred to herein above, recommended to the President to appoint a commission of inquiry headed by a judge exclusively selected by the Chief Justice within thirty (30) days of receipt of the report, to further investigate the issues raised by the Complainants on the basis that the Public Protector was unable to continue with the investigation due to the lack of the necessary resources.

6.1.7. It was noted that, following widespread concerns from Parliament’s Portfolio Committee on Public Enterprises and the public regarding Eskom Board of Directors’ ability to provide effective leadership to the national electricity utility, Parliament’s Portfolio Committee on Public Enterprise instituted an oversight inquiry in accordance with section 55 of the Constitution, 1996 read with Rules 167 and 227(1)(b)(iv) and (c) of the Rules of the National Assembly published on 26 May 2016.
6.1.8. According to the Terms of Reference, the inquiry was mandated to investigate governance, procurement and the financial sustainability of Eskom, including \textit{inter alia}:

6.1.8.1. \textit{Eskom's payment to Trillian Capital Partners (Pty) Ltd of over R400 million for management consulting and advisory services.}

6.1.9. On 28 November 2018, the Portfolio Committee on Public Enterprises issued a report which communicated its findings and recommendations, which found \textit{inter alia} that:

6.1.9.1. \textit{There existed possible contraventions of the Eskom Conversion Act, the Public Finance Management Act, internal and external governance requirements, as well as other relevant legislation, regulations and internal processes applicable to Eskom; and}

6.1.9.2. \textit{It was patently clear that there was undue influence by private individuals and companies over the appointment of Eskom Board members as well as some procurement decisions.}

6.1.10. It was also noted that on 23 January 2018, following the declaration by the North Gauteng High Court in the matter of \textit{Economic Freedom Fighters v Speaker of the National Assembly and Others; Democratic Alliance v Speaker of the National Assembly and Others}¹ that the remedial action in Public Protector's Report Number 6 of 2016/2017 was binding, the President of the Republic of South Africa, His Excellency, President Matamela Cyril Ramaphosa, in terms of the provisions of section 84(2)(f) of the Constitution, 1996, appointed a Judicial Commission of Inquiry headed by Justice Raymond Zondo to conduct the further investigation into allegations of state capture, corruption and fraud in the public sector including organs of state.

¹CCT 143/15; CCT171/15 [2016] ZACC 11, 2016 (5) BCLR 618 (CC); 2016 (3) SA 580 (CC); 31 March 2016.
6.1.11. It was further noted that, following the establishment of the Judicial Commission of Inquiry, Parliament's Portfolio Committee on Public Enterprises recommended to Parliament to hand over the report issued on 28 November 2018, together with the documentation and the entire record of evidence collected in the course of its inquiry to the Judicial Commission of Inquiry into state capture, corruption and fraud in the public sector, including organs of state (commonly known as the Zondo Commission of Inquiry) for further investigation.

6.1.12. According to the information obtained during the investigation, it was noted that in 2016, Eskom and McKinsey mutually agreed to cancel the Master Service Agreement, which saw Eskom making payment to both McKinsey and Trillian in excess of R1.7 billion.

6.1.13. Following the cancellation of the contract, Eskom filed an application in the High Court of South Africa, Gauteng Division, Pretoria seeking the review and setting aside of the unlawful decisions that resulted in payments to McKinsey, Trillian Management Consulting (Pty) Ltd and Trillian Capital Partners (Pty) Ltd, under *Eskom Holdings SOC Limited v McKinsey and Company Africa (Pty) Ltd and Others*[^2].

6.1.14. In its judgment, the Court held that, the following decisions were unlawful and invalid and as a result were set aside:

6.1.14.1. *The decisions to negotiate and conclude the "Master Services Agreement" between the Applicant ("Eskom") and the first respondent ("Mckinsey"), consisting of:*

6.1.14.1.1. *The Eskom Board Tender Committee’s decisions on 6 July 2015 and 21 October 2015 to authorize the negotiation and conclusion of the Master Services Agreement between Eskom and McKinsey; and*

6.1.14.1.2. The decision taken by Mr Edwin Mabelane, Eskom’s Chief Procurement Officer, to conclude the agreement with McKinsey between 7 and 11 January 2016.

6.1.15. The Eskom Board Tender Committee’s decisions on 21 June 2016 and 8 August 2016 to authorize the cancellation of the Master Services Agreement and initial cash payments of R800 million in "settlement" to McKinsey and its unnamed "BBBEE partner", the second respondent ("Trillian").

6.1.16. The Eskom Board Tender Committee’s decision on 13 December 2016 to authorize the further payment of R134 million to the unnamed "BBBEE partner", Trillian.

6.1.17. The decisions to effect "full and final settlement" with McKinsey and its "BBBEE partner", Trillian, consisting of:

6.1.17.1. The Eskom Board Tender Committee’s decision on 13 December 2016 to authorize the negotiation and conclusion of a final settlement and its further decision on 8 February 2017 to “note and support” the payment of R460 million in settlement.

6.1.17.2. The further decisions by Mr Mabelane, alternatively Mr Mabelane and senior Eskom officials, to conclude the 2017 Settlement Agreement with McKinsey on 16 and 17 February 2017 and to effect payments to McKinsey and Trillian pursuant to that settlement.

6.1.18. The decisions to negotiate and conclude the "NEC3 Professional Services Contract (PSC3)" between Eskom and McKinsey ("2015 McKinsey Contract") consisting of:

6.1.18.1. The Eskom Board Tender Committee decision of 10 September 2015 approving the negotiation and conclusion of the 2015 McKinsey Contract;
6.1.18.2. *The decision of senior Eskom officials to conclude the contract with McKinsey on 29 September 2015.*

6.1.19. *The payments made by Eskom to Trillian arising from the impugned decisions above are declared unlawful and invalid.*

6.1.20. *Trillian was ordered to repay to Eskom the sum of R595 228 913.29, together with interest thereon at the prescribed rate, calculated from the date of judgment to date of payment*. 

**Application of the relevant laws and prescripts**


6.1.21. The Constitution, 1996 which is the supreme law of the Republic. Section 182(1) of the Constitution, 1996, thereof provides that, *"The Public Protector has the power as regulated by national legislation –*

(a) *to investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice;*

(b) *to report on that conduct; and*

(c) *to take appropriate remedial action*. 

6.1.22. Section 182(3) of the Constitution, 1996 provides that *"the Public Protector may not investigate court decisions*. 

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The Public Protector Act, 1994 [Act 23 of 1994]

6.1.23. The Public Protector Act, 1994 is the key legislation giving effect to the provisions of section 182(1) of the Constitution.

6.1.24. In terms of section 6(4)(a) the Public Protector is competent to investigate, on his or her own initiative or on receipt of a complaint, any alleged maladministration in connection with the affairs of government, abuse or unjustifiable exercise of power or unfair, capricious, discourteous or other improper conduct or undue delay by a person performing a public function.

Conclusion

6.1.25. Based on the information and documentation obtained during the investigation and the application of the legal framework to the facts of the matter, it is concluded that, the conclusion of a contract between Eskom and McKinsey, as well as payments made to Trillian were declared unlawful and invalid by the High Court and consequently set aside.

7. FINDINGS

Having considered the evidence uncovered during the investigation against the relevant regulatory framework, I make the following findings:

7.1. Regarding whether the procurement of the services of McKinsey was conducted in accordance with legislative prescripts regulating procurement of goods and services by organs, as well as whether payments made to Trillian flowing from the Master Service Agreement were legally due, and if not so, whether the conduct constituted maladministration, improper conduct and irregular expenditure:
7.1.1. I did not conduct an investigation into whether the procurement of the services of McKinsey was conducted in accordance with legislative prescripts regulating procurement of goods and services by organs of the State, as well as whether payments made to Trillian flowing from the Master Service Agreement were legally due on the basis that the issue was extensively dealt with in different forums.

7.1.2. Nonetheless, it was noted that, following the issuing of the Public Protector’s Report Number 6 of 2016/2017 titled “State of Capture”, as well as widespread concerns from Parliament’s Portfolio Committee on Public Enterprises and the public regarding Eskom Board of Directors’ ability to provide effective leadership to the national electricity utility, the Portfolio Committee on Public Enterprise instituted an oversight inquiry in accordance with section 55 of the Constitution, 1996.

7.1.3. Following the finalisation of the inquiry, the Portfolio Committee recommended to Parliament to hand over its report issued on 28 November 2018, together with the documentation and the entire record of evidence collected in the course of the Inquiry to the Judicial Commission of Inquiry into state capture, corruption and fraud in the public sector, including organs of state established on 23 January 2018, by His Excellency President Cyril Ramaphosa following the declaration by the North Gauteng High Court that the remedial action in the Public Protector’s Report Number 6 of 2016/2017 was binding.

7.1.4. As indicated herein above, it was noted that the High Court, in a matter between Eskom Holdings SOC Limited v McKinsey and Company Africa (Pty) Ltd and Others, declared that the decisions to negotiate and conclude the "Master Services Agreement" between Eskom and the first McKinsey, as well as payments made by Eskom to Trillian arising from the impugned decisions were unlawful and invalid. Consequently, Trillian was ordered to repay to Eskom the sum of R595 228 913.29, together with interest thereon at the prescribed rate.
7.1.5. In the circumstances, I am not making a finding and taking any appropriate remedial action as envisaged by section 182(1)(a) of the Constitution, 1996 and section 6(4)(a)(i) of the Public Protector Act, 1994.

8. REASONS FOR CLOSURE

8.1. In terms of section 7(1)(a) of the Public Protector Act, the Public Protector had to determine on the basis of what was found from the preliminary investigation, how the matter should be dealt with.

8.2. The pursuance of the matter and remedial action that I may consider should adverse findings be made from a further investigation will serve no judicial purpose on the basis that the issues raised by the Complainant have been extensively dealt with in different forums, including the High Court.

8.3. A Notice in terms of Rule 42(1) of the Public Protector Investigation Rules published in Government Gazette No. 41903 dated 14 September 2018, was issued to Ms Peace Bertha Mabe on 17 December 2019, with the return date for the submission of a response set for 9 January 2020, failure to which the matter would be considered finalised. Notwithstanding the above, Ms Peace Bertha Mabe did not respond to the Notice, which necessitated the closing of the matter in terms of the provisions of Rule 42(1) of the Public Protector Investigation Rules, 2018.

Kind regards,

[Signature]

ADV BUSISIWE MKHWEBANE
PUBLIC PROTECTOR OF THE
REPUBLIC OF SOUTH AFRICA
DATE: 28/02/2020