'We were bamboozled,' say Steinhoff directors

Two of the directors of Steinhoff - Sanlam chairman Johan van Zyl and accounting expert Len Konar - say former CEO Markus Jooste "misled" the furniture retailer's board.

This is the first defence yet from any of Steinhoff's directors against fiery accusations that the board was delinquent in overseeing the retailer's management, thereby opening the door to the country's largest corporate fraud.

Once one of the JSE's top 10 stocks, Steinhoff's market value shed R206bn in the weeks since Jooste quit on 6 December as "accounting irregularities" emerged.

This week, institutional shareholder Coronation (which holds 5.2% of Steinhoff) described the "failure" of the board as frustrating, while Wits University's Prof Jannie Rossouw wrote an open letter calling on the board to quit.

Konar has told the *Financial Mail* that much of the criticism aimed at the nonexecutive directors is unfair. "We were misled, we were lied to. We asked for information and either it was not forthcoming, or [it was] presented in a way that wasn't representative of the truth," he says.

Konar points out that none of the five remaining independent directors - Van Zyl, Steve Booysen, Theunie Lategan, Heather Sonn and himself - is mentioned in the report by three-man team Viceroy Research.

"These five remaining nonexecutive directors were diligent [and] followed good governance principles, but the events that are now being investigated were beyond our detailed knowledge and were not submitted in that form to the board," he says.

It is understood that Jooste sent an SMS to some of the nonexecutive directors, apologising for having got the company into such a mess. He added in that message that he did not have the courage to meet those directors face to face.

You can see why he'd be reluctant to do so. Konar says many of the directors personally held shares in Steinhoff, and they have experienced "catastrophic losses and reputational damage" in recent weeks.

Konar, Booysen and Lategan's personal shareholdings in Steinhoff have fallen in value from R40m to R3m in recent weeks. And they can't sell the shares, as Steinhoff is in a closed period.

"From October, the nonexecutive directors have been working on Steinhoff matters without remuneration, as these fees haven't yet been approved at an AGM," says Konar.

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Van Zyl tells the *Financial Mail* that though his first instinct upon discovering the fraud in December was to resign, that would have been irresponsible.

"Sure, some people didn't do their jobs diligently, particularly [management]," Van Zyl says. "But you can't have everyone quit on day one. If the entire board had stepped down then, Steinhoff would absolutely have been belly-up by now."

Rather, says Van Zyl, it would be better to stabilise the company, then hold an extraordinary general meeting at which all shareholders could have a say on which directors should stay, who should go and who should join.

"We have a duty to shareholders. It's not easy, given that we've had to deal with some of the management lying to us. If you can't trust the management of a company, you have to ask what the hell you're doing there," he says.

Van Zyl says it seems that much of the fraud didn't happen in Steinhoff itself, but in related entities in Europe, where Steinhoff didn't have control or oversight - either directly or through its auditors.

"These were off-balance-sheet entities set up deliberately to bamboozle the governance structures, including the supervisory board and auditors. If someone sets up those kinds of structures, it will likely do so," he says.

Van Zyl says Steinhoff was set up under Dutch law, in which companies are split into a management board and a supervisory board, which has far fewer powers of oversight than a traditional board in the SA system.

So under Dutch law, much of what a traditional board would do in SA would be the sole domain of the management board. "In hindsight, this is where many of the issues arose," says Van Zyl.

Booysen, the former Absa CEO who chairs Steinhoff's audit committee, is more circumspect, saying he is "quite constrained" in commenting while PwC conducts a forensic investigation into exactly where the accounting irregularities lay. That investigation, he says, "will provide us with the facts and the truth".

The problem is that while PwC's findings are a prerequisite for Deloitte to sign off on Steinhoff's financials for the year to September, insiders say this event is months away. Certainly, it looks very unlikely that financials will emerge by the end of this month, as some investors expect.

"PwC isn't even nearly close to finishing its investigation," says one insider. "And the auditor Deloitte will need [those] findings before it signs off any accounts. So, at the absolute minimum, I expect this to take at least six months."

Steinhoff hasn't given any timeline for the findings. Last week, it said it aims to provide an "update on progress as soon as it is able to do so".

But the company did reveal that it sold 29.5m shares in PSG worth R7.1bn to alleviate its cash crunch, having sold 20m PSG shares in December. In recent weeks, it also sold its Gulfstream G550 jet (valued at $25m), and its French arm Conforama sold 17% of online retailer Showroomprive for R1.2bn.

While Deloitte has also come under fire, CEO Lwazi Bam says: "Based on all information at our disposal to date, Deloitte SA isconfident that it acted professionally, ethically, lawfully and with integrity."

The problem seems to be that while Deloitte was the auditor for the holding company, it only audited some of the operating companies. Steinhoff Europe's operating companies were audited by a separate firm.

While the Independent Regulatory Board for Auditors is investigating Deloitte, this could turn out to be a key inflection point, considering that the fraud is understood to have taken place in the European entities.

Source: Financial Mail