ERNST AND YOUNG FORENSICS TABLES REPORT ON SOUTH AFRICAN AIRWAYS PROCUREMENT INVESTIGATION

News / Finance

This week **Ernst and Young** forensics tabled with the **SAA** Board, its draft report in respect of the **procurement investigation at SAA**.

This report is the first of a number of investigations that will examine specific areas of the business that will identify reasons for the company's unprofitable trading.

The report that is currently being studied by the Board will be followed by specific action plans to address identified weaknesses. The report and the action plans will also be placed before the Minister of Finance.

Ernst and Young selected a total of 48 contracts across SAA, Air Chefs, Mango and SAAT. The purpose was to identify and if applicable quantify the losses caused by failings in either the

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procurement/contracting phase or implementation phase of the identified contracts.

The 48 contracts represent a significant portion of the largest contracts with SAA. The report shows that 28 of these 48 contracts (60%) are improperly negotiated, poorly contracted or weakly managed. A logical deduction must be that if these (many of which are the largest contracts awarded) suffer these weaknesses then the bulk of the smaller contracts will be at least if not worse.

Potentially 60% of SAA's total procurement could be in one way or another subject to weak business controls. This must lend itself to some idea as to why the airline makes such large losses.

The Board has asked the question of management (particularly the financial executives) how it takes an external Ernst and Young investigation to identify these whilst management does not.

These questions are relevant to the financial media which tend to report favourably on press leaks by internal "sources" as though these sources are entirely reliable. The media might wish to consider whether these leaks are questionable.

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