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Zondo commission – Denel CFO unaware of favouritism towards Gupta company

Former Denel CFO Fikile Mhlontlo has confirmed that the leadership of subsidiary Denel Land Systems (DLS) favoured Gupta-linked VR Laser over LMT, which is majority owned by the parastatal, for a 2014 tender to manufacture platform hulls as part of its Hoefyster project. The process was flawed and helped open up Denel to huge financial losses.

Mhlontlo was testifying before the commission of inquiry into state capture on Tuesday, and when asked about the rationale behind signing off on R195-million's worth of business to VR Laser instead of LMT, he said a number of factors came into play in the debates over the issue.

The first time he became aware of how DLS undertook the procurement process was when Mhlontlo received a memorandum from the division's CEO Stephan Burger in July 2014. Because the value was above the delegation of DLS's authority, the subsidiary could only recommend to the group CEO its preferred bidder for approval. But one of the stops the recommendation had to make was with the CFO. "The memo criticises extensively the quality and capability of LMT, and praises the quality of VR Laser," said Mhlontlo.

There were also stark differences in the bids, with VR Laser's standing at R260-million, while LMT's was at R161-million. "The recommendation was that they wish to place an order with VR Laser," he said of the contents of the memo.

"I rejected that strongly. No matter to what extent technically, and the quality being good, it cannot be acceptable in my view where the price difference was almost R100-million."

Mhlontlo asked to meet with the DLS leadership, as well as the CEO of LMT, Stefan Nell, to explore the possibility of encouraging the inclusion of LMT in the manufacturing. In the discussions that followed, a proposal was put forward for LMT to get the contract, and sub-contract to VR Laser.

What he was not told at the time was that VR Laser would be given a chance to review its price when DLS went back to the drawing board. VR Laser came back to DLS with a much-reduced offer, which brought the total value of the tender down significantly.

"My concern from a finance standpoint, is that if you award the business externally, you are depriving the group of the money, because you could revolve the money within."

But in the end, the proposal that made it to his desk was that VR Laser – at the reduced price – should get the contract, and give some of the work to LMT. Convinced that his concerns were covered and that LMT would get something, Mhlontlo signed off in October.

This, however, was without the knowledge of then head of procurement Dennis Mlambo, who was on leave at the time. Mlambo's reservations with the process was that it did not follow Denel's procurement policy. He testified last month that years earlier, DLS management had been at pains to motivate for the acquisition of LMT, arguing at the time that it made business sense for Denel to

move the manufacture of armoured parts in-house. The change in attitude – to the extent that an open tender was undertaken to attract external bidders – surprised him, he said.

“There were two critical things that I was angry over. The first one was that this should not have gone out to external parties or companies to quote because we had acquired LMT in particular to design and manufacture the same products so that we could meet our contractual obligations on the Hoefyster contract,” said Mlambo.

Responding to a question from evidence leader Paul Kennedy on whether his decision to sign off in Mlambo’s absence did not undermine the latter’s well-communicated concerns, Mhlontlo said he was convinced that the process would not leave LMT out completely, and there was pressure to move the process along.

“The misgivings were not so much about LMT vs VR. I barely knew at the time who was behind VR Laser – I learned later when I was suspended. It was more about the understanding I had about the capability of LMT. In my understanding, some design work of the very same product had been done by LMT.”

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