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Zondo commission – Denel SCM head kept in the dark over Gupta contract

Had the 2014 procurement process of platform hulls - part of arms manufacturer Denel's Hoefyster project - gone through the office of the group executive in charge of supply chain management, Gupta-linked VR Laser would not have won the contract. Denel Land Systems (DLS) went through a closed tender process that resulted in three bids competing for the project, worth over R300-million at the time.

Dennis Mlambo, the former group head of procurement at Denel, testified before the commission of inquiry into state capture on Wednesday. His office, he said, was bypassed when the deviation process to award VR Laser a contract was approved by then GCEO Riaz Saloojee under suspicious circumstances. For Mlambo, the most glaring of VR Laser's shortcomings was its inability to produce the true identities of its shareholders.

He testified to making numerous attempts to solicit the exact identities of VR Laser shareholders, to verify its BBBEE status claims of being 25% black woman-owned. His enquiries went unanswered, and to date the company has not produced a breakdown of its individual shareholders.

But even more disturbing for Mlambo was that Denel-owned LMT – one of the three bidders in the process – was overlooked for the procurement, despite being the best placed to do the work, and the cheapest, he said. He questioned the reasoning by DLS leadership in going out to tender in the first place, given that LMT was purchased from British company BAE Systems for the sole purpose of retaining the manufacture of armoured components in-house.

"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 to design and manufacture the same products so that we could meet our contractual obligations on the Hoefyster contract," said Mlambo.

In fact, the apparent about-turn of DLS CEO Stephan Burger in pursuing the appointment of VR Laser "baffled" Mlambo, as the former had advocated for the purchase of LMT in the interest of saving money for the state-owned entity. But in going with VR Laser, DLS was prepared to spend R100-million more than they would have with LMT.

"The other issue was that Mr Burger – because I was sitting on the board of DLS at the time – was actually at pains to convince the DLS board of the strategic importance of LMT. He pointed out that if we didn't save LMT because it was going through some financial difficulties – there were also some governance lapses which we could address as a group – then we could not execute the Hoefyster contract without LMT, so this really shocked me."

The commission heard on Tuesday from Mlambo's counterpart in DLS, Celia Malahlela, who said she opposed the appointment of VR Laser after red flags surfaced. One of these was the sudden review of the company's pricing specifications, sent to her on the day that she submitted the final bids from all three companies to her then line manager, DLS COO Reneen Teubus.

Mlambo's suspicions grew when both Teubus and Burger attempted to convince him in a September 2014 meeting to approve the deviation, so that it could move on to Saloojee. "The purpose [of the meeting] was actually to convince me to approve this transaction to award the contract for the 183 platform hulls to VR Laser, and after having looked at the entire submission, the scoring, the way the entire process was handled, I was actually not just angry, but I felt that this process was being manipulated to favour VR Laser."

The company had been scored inaccurately, particularly in respect of its technical abilities, given that it had never produced the products in question. Mlambo noted that where a maximum score of 45 points for this category was stipulated in the scoring sheets, DLS gave VR Laser over 50 points.

"It actually defied logic as far as I was concerned, that companies that had never manufactured platform hulls were given a higher score on the technical evaluation, and the company that was contracted by Patria, the original equipment manufacturer, to make a prototype got the lowest score."

Before the meeting, said Mlambo, he had not been aware of the procurement process, although it should have come to his office earlier, given the cost of the project.

"If they had come to me before taking the decision to go out to the market, I would have said no. We invested money in LMT for the very reason that we wanted to do well financially and technically in the execution of the Hoefyster contract.

"What got me hot around the collar was that DLS leadership was prepared to pay almost R100-million more than what LMT was actually quoting."

Commission chairperson Deputy Chief Justice Raymond Zondo wanted to know if Mlambo knew why the deal to that point bypassed him. "This is my speculation. The reason is that they knew that I would go through this – because of the value of the contract – with a fine-tooth comb, and there was a very slim chance or no chance at all that I would approve the transaction."

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