**Parliament, Thursday, 7 November 2019 – The Portfolio Committee on Public Enterprises has committed itself to monitoring developments at Denel and assist in addressing challenges facing the state arms company to ensure that the company is turned around to improve its revenue.**
Denel appeared before the committee at Parliament yesterday to brief it on the annual report and financial statements for the 2018/19 financial year.

The committee welcomed Denel’s presentation and the work that has been done by the new Board to turn the company around. Members of the committee told Denel about the importance of always being driven by the common mandate of all the state companies of contributing to the economy of the country.

For the financial year under review, Denel achieved seven of the 23 key performance indicators in the shareholder compact which is 30.4% of the targets, and sixteen or 69.6% of the targets were not achieved. The targets are related to: Research and Development, Programme Delivery, Broad Based Black Economic Empowerment, preferential procurement and enterprise development, corporate social investment, sustainable development indicators, and financial sustainability. The failure to meet these targets was attributed to the entity’s liquidity constraints.

Briefing the committee, the company’s Chief Financial Officer, Ms Carmen la Grange said the financial performance of the entity saw a drop of revenue by 38%, and this, she said, was as a result of low production activity.

According to Ms la Grange, low gross profit was as a result of labour under-recoveries despite headcount reductions, net loss was due to high-interest expense, the exit of loss-making divisions and onerous contracts and poor financial performance were mainly due to the continued liquidity challenges.

Denel received a disclaimer audit opinion for both 2017/18 and 2018/19 financial years due to misstatement on several items in the previous financial year, and a lack of audit evidence in the year under review. The Auditor-General stated that the entity was not able to obtain sufficient and appropriate audit evidence to provide basis for an audit opinion on the financial statements.

Going forward, the committee said, Denel needs to address and tackle its liquidity challenges so that the entity is able to meet its performance indicators and improve on making profits.

With the voluntary severance packages of employees that the entity instituted, the committee said Denel is likely to have an audit opinion of a disclaimer again as some of the reasons cited in the audit opinion are inadequate skills and accounting standards. The committee was of the view that Denel needs to attend to this so that the entity has an improved audit opinion.

Denel’s Chief Executive, Mr Danie du Toit, told the committee that 11% of the entity’s workforce will be going on retirement soon, the committee expressed a concern on Denel’s failure to transfer skills to the young people to ensure continuity in the entity largely for the purposes of continuous improvement of the business.

Denel assured the committee however that the matter of continuity is receiving the attention of the entity.

ISSUED BY THE PARLIAMENTARY COMMUNICATION SERVICES ON BEHALF OF THE CHAIRPERSON OF THE PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES, MR KHAYA MAGAXA